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Economic and Social Research for Rural America

News

Agricultural and Rural Economy Division
Economic Research Service
U.S. Department of Agriculture

Spring 1991



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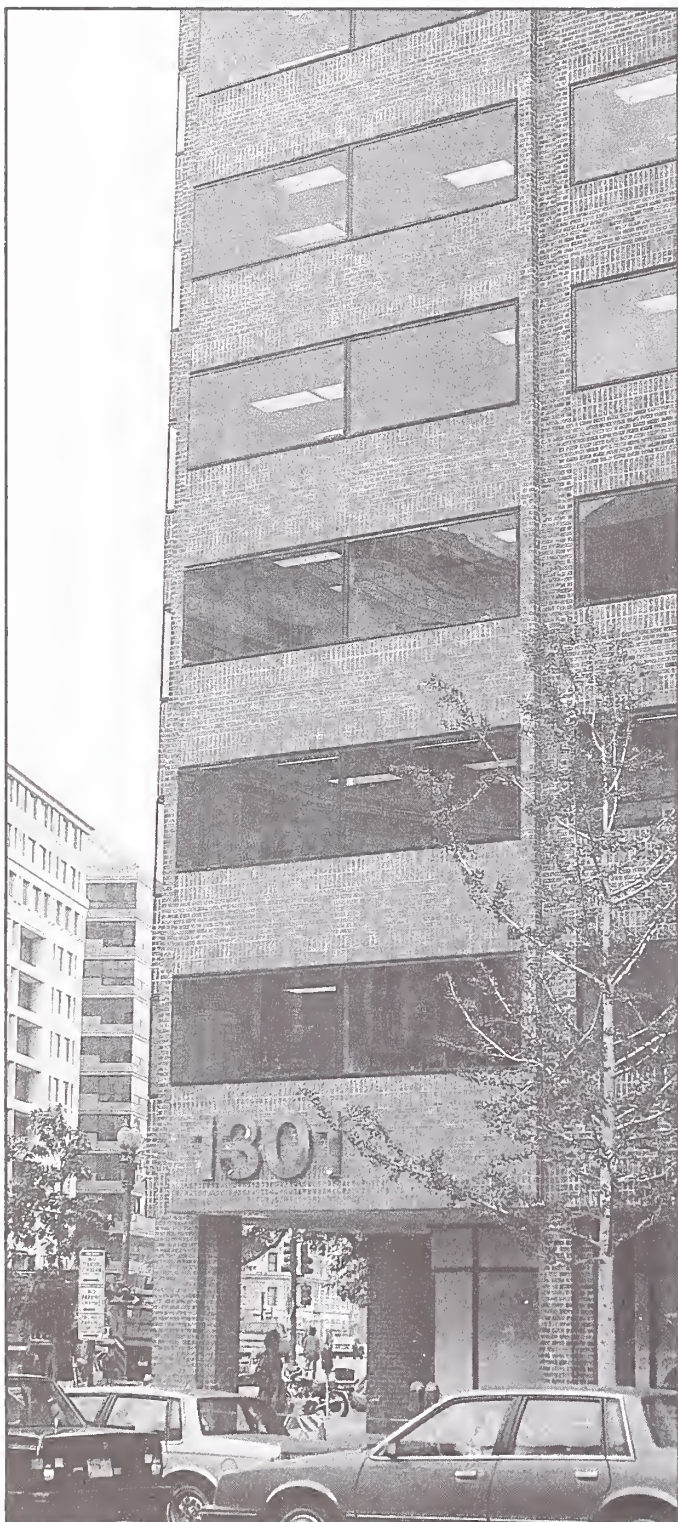
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ERS Headquarters

Spring 1991

Economic and Social Research for Rural America

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Cover: Springtime scene.

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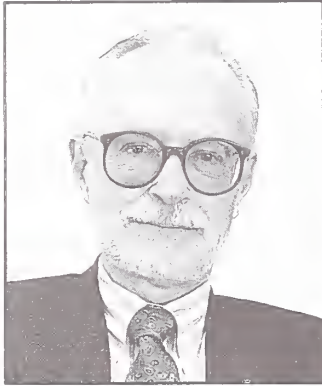


The Importance of Thinking Strategically About Rural Development Policy

By Ken Deavers

The arrival of Spring finds the director's office unusually thin (no pun intended). The absence of **Dick Long** and

Norm Reid has finally sunk in. **Sara Mazie** will do an excellent job as acting associate director, but that still leaves us without two senior people who made very important contributions to the division's program. I ask for your understanding if it takes a bit longer for decisions to get made, manuscripts cleared, budgets allocated, personnel actions processed, etc. **David**



Ken Deavers

Harrington, **Sara**, and I will make every effort to keep things from getting bogged down in OD.

In March I attended a conference on future directions for rural development sponsored by the Northeast Rural Development Center. I talked about the importance of thinking strategically about future policy. I noted that recent public discussions of rural development policy have focused largely on the short-term rather than the long-term, and thus dealt mainly with tactics not strategy. For example, rural health care advocates have spent much of their political energy trying to change Federal regulations governing Medicare reimbursements, which are "biased" against rural hospitals and health care providers and arguably contribute to the financial problems that threaten their survival. Similarly, in last year's debate between the Senate and House over rural development legislation, interest group lobbying was focused on protecting the categorical nature of FmHA community assistance programs, especially water and sewer grants. The focus by advocates on the short-term explains, in part, the conflict between the goals of the new Farm Bill which authorized creation of a Rural Development Administration (RDA) with a broad and flexible program mandate, and subsequent appropriation language which appears to limit USDA spending for RDA.

I would not argue that tactics are unimportant. The organization, mix, and content of rural development

programs almost certainly affect the outcomes achieved. But I think that attention devoted solely to tactics, when the most important issues are strategic, is a serious mistake. Moreover, in most cases it is not even possible to decide on appropriate tactics in the absence of an agreed upon strategic view.

To return to the rural health care example, strategic issues seem to me far more important than Federal reimbursements. Changes in the technology and practice of medicine have dramatically shortened the length of hospital stays for most routine procedures and raised the capital costs of more exotic care beyond the reach of small hospitals. This has made much rural hospital capacity redundant, as evidenced by dramatically reduced occupancy rates. Tinkering with reimbursement formulas will not change this fact. Instead, what is needed is a fundamental rethinking of the way in which health care is delivered to rural people (i.e., the strategy). How can rural people be assured entry to the health care system for diagnosis and treatment of nonemergency conditions, what kind of system will provide adequate treatment for emergencies and trauma cases in rural areas? Within these issues, but not apart from them, the question of a future role for rural hospitals can be sensibly addressed.

Thinking strategically about our own research is equally important. Several new section leaders in ARED are making efforts to rethink what important research questions should guide their unit's research over the next few years. And I know of some other units where similar planning is going on. I want to encourage each of you, however, not only to participate in such formally organized activities but also to volunteer ideas about your own work and the work of your section and branch. We spend so much time immersed in our day-to-day activities, it is sometimes difficult to see the forest and as Sara is likely to say "paint the landscape, as well."

With the release of detailed social and economic characteristics from the 1990 Census only a year or so away, there will be many opportunities for creative research using the Census, and new research directions arising from it. A number of early products from the Census will be very important to the division, and it is not too early to begin thinking about them. For example, after the 1970 and 1980 Censuses, we have produced a summary of the decade's changes. Since the last time we did such a report two new ways of thinking about rural areas have been developed -- the county typology, and the labor market delineations. What role should these new paradigms play in our reporting of the 1980's? As another example, many people will be looking for us to update the county typology. It is already clear from work done with other data sets that the unclassified set of counties has grown too large to be ignored any more. And it would certainly be desirable to

have some recognition of the service sector explicit in the typology, assuming we can agree on a useful way to do that. I am sure that each of you have many additions to my list. Don't keep them private, share them with your colleagues. Our program will be better and more creative if you do.

Molly Killian Named *RDP* Editor

Molly Killian has been named the new Executive Editor of *Rural Development Perspectives* and will assume responsibility for all aspects of the journal. The current Executive



Molly Killian

Editor, Sara Mazie, has assumed the position of Acting Associate Director for ARED. Molly has broad experience working with *RDP* both as an editor and a contributor. She has been on the editorial board for over two years, and served as indicators editor for the last 18 months. Molly has also written two articles and several book reviews for *RDP*. Together with the rest

of the *RDP* staff, Molly welcomes any suggestions for articles, authors, topics, new sections (rural cartoons?) for the journal.

Molly received her bachelor's degree in sociology from the University of Arkansas, and did graduate work at the University of Georgia before joining the rural labor markets section in ARED in 1985. In 1989, she received her doctorate in sociology from Georgia. Her dissertation examined the impact of local labor market structures on the rural/urban earnings gap. Her research at ERS has focused principally on issues relating to the structure and performance of local labor markets. Most recently, she has written a chapter (with Tim Parker, HRI) on the impact of education levels on local employment growth that will appear in a forthcoming ERS monograph on rural development strategies. Molly also has played a central role in establishing the new rural and urban labor market area delineation that has become a valuable tool for rural researchers across the country. She plans to continue her research on local labor markets at a much reduced pace.

The leadership of *RDP* has changed but the submission policy remains the same. The *RDP* staff invites researchers to submit articles for publication. Research articles generally tell what's happening in rural America in finance, education, labor markets, and population, to name a few

topics. It is not necessary to submit a paper written for the *RDP* audience of rural policymakers, regional planners, and local government officials. Many submissions are written with a different audience in mind. All submissions are reviewed by the editorial board of researchers from the Agriculture and Rural Economy Division of ERS. In our blind review process, we are looking for manuscripts that are based on technically sound research that is related in some way to rural development. Once the editorial board commissions an article based on the submitted manuscript, we assist the author to adapt it to *RDP*, with the help of editors and suggestions from reviewers who have considered the article in depth. If you have any questions about the appropriateness of a manuscript or the publication process, please call Molly Killian at (202) 219-0520. Copies of our "Guidelines for Contributors" are available upon request.

IN THIS ISSUE

Rural Conditions and Trends

The Spring 1991 issue of *Rural Conditions and Trends* contains the following articles:

OVERVIEW: "Recession Appears Equally Severe in Urban and Rural Areas."

NATIONAL ECONOMIC CONDITIONS: "Economic Expansion Imminent," by Karen Hamrich, John Kitchen, and Elizabeth Mack. The economy entered a recession in the second half of 1990, but will probably rebound later this year.

EMPLOYMENT: "Rural Employment Growth Stalls," by Paul Swaim. Rural employment was 0.2 percent higher in 1990 than in 1989. National data, which allow a more timely assessment of employment trends, suggest that rural employment fell during the second half of 1990. As employment opportunities deteriorated, the share of the rural population in the labor force also fell.

UNEMPLOYMENT: "Rural Unemployment Edges Up," by Timothy Parker. Rural unemployment increased slightly during 1990, reversing a decline that began in 1986. The increase in unemployment hit rural and urban areas equally during 1990. The rise in unemployment also affected the major race/ethnic, gender, and age groups quite evenly.

INDUSTRY: "All Major Rural Industries Continued to Expand in 1988," by Martha Frederick and Andy Bernat. Service-producing sectors accounted for most of the increase in nonmetro employment. Employment in goods producing industries grew faster during 1988 in nonmetro areas than in metro areas. Nonmetro areas in the

Northeast and West continued to grow faster than other regions, but more jobs were added in the South.

EARNINGS: "Slight Decline Continues in Rural Earnings per Job," by Linda Ghelfi. Rural real earnings per job declined 0.7 percent in 1987-88 while urban earnings grew 1 percent. As a result, rural earnings slipped to 73.5 percent of urban.

INCOME: "Rural Income Grows Minimally," by Deborah Tootle. Rural per capita income increased slightly in 1989, but more slowly than in urban areas. Per capita income for rural minorities actually declined slightly. The urban-rural income gap appears to be expanding.

POVERTY: "Rural Poverty Stabilizes," by Robert Hoppe. The rural poverty rate stabilized between 1988 and 1989, at about 16 percent. The stable rural poverty rate reflects a relatively constant rural unemployment rate during the same period. Poverty rates remained higher in rural than urban areas for all population groups.

POPULATION: "Rural Population Growth Slows During 1980-90," by Margaret Butler. Population decline was widespread, with remote nonmetro counties most likely to lose population. Counties in retirement and recreation areas, on the other hand, grew faster than the U.S. average.

POPULATION: "Rural Families Headed by Women Are on the Rise," by Linda Swanson and Laarni Dacquel. Rural households and families remain more traditional than their urban counterparts, although rural areas have changed so quickly in the last decade that some differences disappeared by 1990. Single-parent families now constitute a sizeable share of younger families, increasing more quickly in rural areas.

Rural Conditions and Trends is published four times per year. Subscription price is \$14 for 1 year. Send check or money order to ERS-NASS Box 1608, Rockville, MD 20849-1608. Make check or money order payable to ERS-NASS. You can charge your subscription to VISA or MasterCard. Use the toll-free telephone number 1-800-999-6779 to start your subscription.

Administrator's Awards

Four Administrator's Special Merit Awards went to ARED researchers at the awards ceremony on April 4 in recognition of their contributions toward achieving ERS's goals.

Susan Bentley for her work on farm operators who left farming in the 1980's. Susan, collaborating with William Saupe, University of Wisconsin-Madison, studied the adjustments of a group of surveyed farm operators in southwestern WI to the farm recession of the early 1980's. They studied both the 20 percent who left farming and those who continued to farm. Analysis showed that while the emotional cost of farm loss was high among the exit families, most families who involuntarily left farming experienced increased incomes, and of these a majority stayed in their home counties. Their research results were published in ERS's *Rural Development Perspectives, Choices*, and three Agricultural Economics Reports (625, 631, and 645).

Sara Mazie with Lindsay Mann and Susan DeGeorge of EMS for their contributions to *Rural Conditions and Trends*. This quarterly periodical was founded in the spring of 1990. It provides timely and accessible analyses of current data about developments in rural America and the well-being of rural people and their communities.

Gerald A. Schluter for outstanding management of the National Aggregate Analysis Section. Gerald has headed the National Aggregate Analysis since it came to ARED in the 1985 reorganization. He feels he received the award as a representative of his top-notch staff, the majority of whom have joined since the move to ARED. In the past several years, NAA staff members have presented research papers on four continents, in eight nations, and at numerous professional meetings.

James Johnson and Mary Ahearn for their contributions to the 1990 Farm Bill team. They were part of an eleven member agency-wide team recognized for their contributions to the analysis of the 1990 Farm Bill. Jim and Mary provided analysis based on the Farm Costs and Return Survey (FCRS) data to Dan Sumner, Deputy Assistant Secretary for Economics.

Gerald Schluter, Caroline Fohlin, and Sherman Robinson for their article "Terms of Trade and Factor Commitments in Agriculture," chosen as best article in the *Journal of Agricultural Economics Research*. (See following article.)

JAER Best Article Award To "Terms of Trade and Factor Commitment in Agriculture"

An article by Caroline Fohlin, Sherman Robinson, and Gerald Schluter, "Terms of Trade and Factor Commitment in Agriculture," published in the Fall, 1989 issue of *The Journal of Agricultural Economics Research*, was chosen as the best article of the year by the editorial board.

In the paper, the authors looked at agricultural adjustment under continuing U.S. economic development. They examined both the effectiveness of the price system in signaling the appropriate farm sector resource adjustments and the effectiveness of the farm resource market in responding to available signals. U.S. agricultural economic growth in this century has been characterized by a slow rise in the demand for food and a more rapid rise in farm output. Farm productivity also increased more rapidly than nonfarm productivity. In such an environment, one expects the size of the farm sector to decline as a share of the rest of the economy. What is not so clear is the effectiveness of the price system in signaling the appropriate farm sector resource adjustments. The authors examined four terms-of-trade measures conceptually and, since 1929, empirically. They found that even distortions from farm programs have not offset the long-term trend of declining terms of trade. Labor and capital markets respond to price signals, albeit imperfectly and slowly.

ARED Researchers at Southern Regional Science Association Meetings

ARED researchers contributed research on a wide range of rural issues to the Southern Regional Science Association Meetings in Miami, FL, April 11-14.

James Miller, (HRI), delivered a paper entitled, "Small Business Development as a Growth Strategy in Nonmetropolitan Areas." Jim's conclusion was that while some nonmetro counties will be good locations for export-oriented small businesses, many nonmetro counties are going to be at a disadvantage, particularly those outside of commuting zones to large urban centers. Jim was also responsible for setting up the session for his paper, as well as two other papers by ARED researchers.

Shirley Porterfield, (HRI), presented "The Impact of Structural Change on Earnings in the Post-Industrial Economy." The change in average annual earnings per job between 1981 and 1987 is divided into the change in earnings due to a change in the industrial mix in the local economy and the change in earnings due to change within each industry. The change in industrial mix, primarily due to a shift in employment from manufacturing and primary industry jobs to services-producing industries, had a negative impact on change in average annual earnings per job in both metro and nonmetro areas. However, average annual earnings per job were buoyed by a shift in employment to industries which experienced higher than average growth in average annual earnings per job.

Robert Gibbs, (HRI), presented a paper entitled "The Information Effects of Origin on Migrants' Job Search



Florida became ARED South for the SRSA meetings.

Behavior." The paper finds that rural southerners, especially southern blacks, who move to urban and non-southern places tend to accept lower paying jobs than other migrants after controlling for human capital levels.

"Commercial Loans and the Development of Local Retail Business" was presented by David Henderson, (FRE), and George Wallace, (FDP). A relationship between retail sector output and commercial loans from commercial banks for three sizes of communities within a ten county area of southwest Minnesota is estimated. Banks are evidently providing commercial loans which help existing businesses grow into larger businesses, although the impact of their activity varies by size of community. Commercial loan activity appears to augment the consolidation of the retail sector into larger communities because the larger elasticities indicate commercial bank loans stimulate more retail activity there. But, without the commercial loans in the smaller communities, the rate of decline in their retail sector could have been much greater than it was.

Peter Stenberg, (FDP), presented a paper entitled "Higher Education and Productivity at the State Level: The Case of the Instrument Industry." Peter used statistical analysis to examine the impact of universities on the growth of productivity in the scientific instrument industry (SIC38) in their regions. Previous studies have argued that the local region garners the primary economic benefits from university education and research programs. Peter's results support the hypothesis that universities do have a positive effect on the regional productivity growth in the instrument industry.

Rick Reeder, (FDP), presented the first results from his rural enterprise zone study. "Enterprise Zones: Assessing Their Potential As a Rural Development Strategy" reviews the literature on State enterprise zone programs (which employ tax and other incentives to encourage business development in distressed areas) and provides empirical information on job creation performance of both metro and nonmetro zones. The empirical analysis, undertaken with the assistance of Ken Robinson and Dan McCarthy (both formerly with ARED), provides evidence that both rural and urban zones have been associated with significant job creation. Not all zones have been successful, however, and there is considerable variation in performance. Rural zones appear to have been more successful than urban zones in achieving substantial job creation relative to their populations. The most successful rural zones appear to have been zones with smaller populations located within more heavily urbanized nonmetro counties.

Tom Rowley, (FDP), presented "The Rapid Rise in Per Capita Income Inequality in the 1980s: Sources and Prospects," co-authored by **John Redman**, (FDP). Tom also served as a discussant for another paper on regional inequality and presented "Removing Rural Development Barriers Through Telecommunications: Illusion or Reality?" co-authored by **Shirley Porterfield** (HRI). The telecommunications paper, based on an extensive review of the literature, examines the pros and cons of using enhanced telecommunications to remove major obstacles to development in rural areas. Obstacles include factors such as geographic isolation, lack of human capital, declining job opportunities, and lack of services. The study concludes that the rural development benefits from telecommunications are typically overstated. However, without enhanced telecommunications, rural areas will continue to lag behind urban areas and will be unable to fully participate in the global economy. Still, enhanced telecommunications does not, by itself, generate development. And finally, the authors foresee that the market is unlikely to provide telecommunications in rural areas comparable to that found in urban areas because rural demand is too small. To achieve such levels, government intervention will be necessary.

Dan Milkove, (FDP) presented "Recent Bank Consolidation in Rural Financial Markets." Dan used the Federal Reserve Board's Bank Structure database to identify 3,050 banks closed as a result of mergers during 1985-89. Most (all but 362) of these were converted to branches of the acquiring banks, and about a third (1,105) had rural headquarters. Not all mergers involved a change in ownership. Some States liberalized the laws governing bank branching in ways that led bank holding companies to turn some of their nominally independent bank affiliates into branches of other affiliates. Dan also looked at the 5,085 cases in which banks changed their holding company

affiliations. Of these, 2,264 banks were previously independent and 2,216 banks were transferred from one holding company to another. The remaining 605 banks were holding company affiliates that reverted to independent status. The findings so far suggest that when rural banks change hands in these transactions, they were likely already part of larger banking organizations, and probably not the main targets of the acquisition.

William Edmondson, (NEH), presented his paper "Examining Agricultural Output in the 1982 National Input-Output Accounts By State and I/O Sector." The paper presented the commodity output totals for the seventeen national input-output sectors by component and by State. The data files, which are to be offered in the ERS electronic data files sales program, present a unique set of States level control totals for these I/O sectors. The control totals are both empirically and conceptually consistent with the published national I/O accounts.

Linda Ghelfi presented "Fair Market Rents: What Evidence of Metro-Nonmetro Cost-of-Living Differences Do They Provide?". Fair market rents (FMRs) for efficiencies through 4-bedroom units are calculated by HUD for counties and used as the maximum rental subsidy amount.

Linda found wide variation in nonmetro FMRs by region. In all regions, there is at least one nonmetro area that has a FMR equal to the metro average rent. And, in the Northeast and West, there are nonmetro areas with rents almost as high as the maximum metro FMR. These results suggest that regional averages are not a good indicator of rental costs in local areas.

In the second part of the analysis, Linda compared FMRs with two other measures of housing costs--the Florida price level index for housing and the rental component of the American Chamber of Commerce Researchers Association (ACCRA) interarea cost of living index. A FMR index for Florida was constructed and compared with the Florida housing index. Although the Florida housing index includes homeownership costs, major home appliance costs, and household products costs along with rental costs, the FMR index and the housing index identified the same top three price level counties: Monroe, Broward, and Dade, in that order. Below that the rankings varied. The FMR index ranged from 55.5 to 123.6 while the housing index ranged from 79.9 to 131.9, suggesting that rents vary more across Florida than homeownership costs and prices of household appliances and products.

The rent reported by ACCRA is based on the monthly rent of a 2-bedroom apartment located in areas where midmanagement households (households with income about twice the local average) live. This rent is for a

higher quality unit than the "decent, safe, and sanitary" unit reflected in the FMRs. But the FMR includes utilities while the ACCRA rent is for a unit excluding all utilities except water. Comparing ACCRA rent and FMR in the 289 areas for which there are ACCRA rents showed that FMRs tend to be below high ACCRA rents and above low ACCRA rents. That the FMRs should be lower than high ACCRA rents is understandable given the higher standard of apartment unit ACCRA prices. And, in lower ACCRA rent areas, FMRs may be quite close to ACCRA rents if these are smaller areas with a narrower range of rental unit quality. And, at lower ACCRA rent levels, the inclusion of utilities in FMRs may make FMRs somewhat higher than ACCRA rents. Linda plans to continue this analysis.

OFFICE OF THE DIRECTOR

Papers Presented & Meetings Attended

David Harrington presented a paper entitled "Measurement Issues Relating to the Use of Commodity Costs and Returns in Policy Analysis" at the Economic Accounting for Commodity Costs and Returns conference in Kansas City, MO, February 19-21.

Sara Mazie attended the spring meeting of the Northeast Regional Council where Walt Hill discussed the new Presidential rural development initiative and the formation of the Rural Development Administration.

Sara Mazie also attended the Food and Agriculture Committee of the National Planning Association in Washington, D.C.. The committee discussed agriculture, the environment, and food safety. Special emphasis was placed on the increasing linkage among all sectors of the food production, processing and distribution industry.

Sara Mazie attended the first meeting of the advisory group for the Center for the New West's project on the Great Plains, April 15, in Denver. The project was designed to carry out a comprehensive examination of the economic, social, political, and cultural dynamics of the region and their implications for the future of the region. The meeting worked on the first stage of the study that will focus particularly on the relationship between urban and rural areas within the region. An important overall objective for the project is to develop a new framework for considering the future of the region and ways in which government policies and programs might enhance that future.

Personnel

Sara Mazie has been named Acting Associate Director of ARED while Dick Long is at the Organization for Economic Cooperation and Development. In 1985, Sara joined ERS as Assistant to the Director for Research Information and Dissemination. She became Assistant Director for Rural Development Situation and Outlook in 1988. While at ERS, Sara has been editor for *Rural Development Perspectives*. She took on another journal in the spring of 1990 when she founded *Rural Conditions and Trends*.



Sara Mazie

Sara has a B.A. in mathematics from Cornell University and a masters in urban and regional planning from Columbia University. Before joining ERS, she was a policy analyst for the Office of Rural Development Policy in USDA. Her earlier work at USDA includes participation in a research project to assess our understanding of conditions in rural America and co-editorship of *Nonmetropolitan America in Transition*. She has also been a research associate at the Urban Institute.

FINANCE AND DEVELOPMENT POLICY BRANCH

View from the Branch

By Pat Sullivan

From my office, I can easily see 3 new office buildings that are vacant, for all intents and purposes. With a general paucity of new tenants, it is little wonder that many local builders and their banks are experiencing some of the most detrimental effects of our economic recession. And since the same story is being played out throughout the Northeast, on the heels of similar problems that racked Southwestern banks at the end of the 1980's, it's not hard to see why Congress and the Administration are getting a little nervous over the health (or lack thereof) of the bank insurance fund. After several false starts over the past



Vacant office buildings signal problems for northeastern banks.

several years, 1991 should be the year some type of banking reform legislation finally gets out of committee. The extent of this legislation remains to be seen, but at a minimum the Congress is going to have to take steps to recapitalize the bank insurance fund. Otherwise, we will see a repeat of the S&L debacle, where hopelessly insolvent institutions were allowed to continue amassing huge losses because the government couldn't afford to shut them down.

Unlike the bank insurance fund, the locally headquartered banks that predominate in most rural communities are in sound financial shape. Relative to their larger urban counterparts, rural banks are better capitalized, more profitable, and have fewer problem loans. Given their current regulatory environment, there is little reason to expect rural banking institutions to be strongly affected by the national recession. And what little we know about the performance of rural financial markets suggests that they have worked fairly well for most businesses. While market imperfections cause problems for some types of businesses in some markets, the notion that rural businesses are uniformly under served by the Nation's financial services industry hasn't been supported by our research. But this research is based on institutions and relationships that have developed over 50 years of relatively stable Federal

regulation of the banking industry. How banking legislation will affect these markets, and ultimately the economic prospects of rural America, is an open question.

Much of the branch's recent and planned research is meant to shed some light on this issue. The strong financial position of most rural banks suggests that they could weather an increase in Federal deposit insurance rates, or a switch to risk-based deposit insurance, or increased capital requirements without too much difficulty. And the available evidence suggests that rural financial markets remain well served even when State branching regulations undergo dramatic change. As a result, if Federal regulations allow unrestricted interstate branching, there is every reason to expect rural banks to continue surviving, even in the face of direct competition from the branches of large eastern banking establishments. But the deposit insurance reforms envisioned by the Treasury Department--severely reducing insurance coverage at small banks while effectively maintaining unlimited deposit insurance at "too big to fail" banks--would reduce the survival prospects for rural banks. Such a step, coupled with geographic and product market deregulation, could radically alter the structure of the rural banking system. Work by Jim McGlone on bank behavior and Doug Duncan's bank simulation model should help us anticipate how rural banks will react to bank reform. Planned work by Cliff Rossi and Bob Collender on the cost structure of rural banks and Dan Milkove's work with the Federal Reserve Board's (FRB) bank structure file should shed some light on possible structural changes we can expect to see in the future. But the tough question remains, for those of us who don't happen to own stock in a rural bank, what does it matter? Would a change in the structure of the rural banking system affect the supply of financial services to rural businesses, households, and governments? And if so, would the change be for the better or the worse? The representatives of small independent banks have their opinion, while those of large money-center banks tend to see things differently. While data constraints make arriving at definitive conclusions difficult, the work that Felice Marlor and Jim have planned when the FRB's long awaited National Survey of Small Business Finance is finally released should provide some answers. And in the meantime, Jim Mikesell's research on the farm lending activities of single- and multi-market banks is squeezing the available data for whatever insights it can provide. All of this research should provide some useful fodder as the debate over banking reform continues.

Publications

The Rural Conditions and Trends Special Report on Financial Institutions and Markets should be out soon if it hasn't

already hit the streets. The report, coordinated by **Cliff Rossi**, provides facts and figures relating to the performance of rural banks, savings and loan associations (S&Ls) and credit unions through 1989. The report finds rural banks and credit unions in better shape to weather the recession, while S&Ls continue to perform poorly. In addition to a profile of rural financial institutions, two special articles on deposit insurance reform and the recent S&L bailout legislation are featured.

This is the inaugural issue of what we hope will be an annual report on the financial condition and performance of primarily nonfarm rural lenders. As such, it will complement the February issue of the *Agricultural Income and Finance Situation and Outlook Report*, which concentrates on the performance of farm lenders.

In addition to coordinating preparation of the report, **Cliff** authored one of the special articles. "Rural Financial Institutions After FIRREA" looks at the rural effect of legislation enacted to reform the thrift industry. **Cliff** concludes that stiffer capital requirements and new restrictions on nonmortgage lending will hamper thrift growth and performance for some time, but that in the long-run, they will lead to more stability in rural capital markets.

Papers Presented & Meetings Attended

Rural Financial Institutions Highlighted At The Regional Meeting Of The Decision Sciences Institute

Pat Sullivan chaired a session on "Problems in Managing and Regulating Rural Financial Institutions" at the annual meeting of the Southeast Region of the Decision Sciences Institute, held in Arlington, VA in February. The session included papers by **Doug Duncan** and **George Wallace**, **Jim McGlone**, **Jim Mikesell** and **Cliff Rossi**. The session was coordinated by **Douglas Duncan**. The session's proceedings, including all of the papers and comments by **Nick Walraven** (Federal Reserve Board) and **Eric Hirshorn** (Office of Thrift Supervision), are being readied for publication as a Staff Report.

In their paper "Identifying High Performance Agricultural Banks," **Douglas Duncan** and **George Wallace** found that despite the decline of the farm sector in the mid-1980's, some agricultural banks sustained a high level of profitability throughout the decade. A total of 204 commercial banks met the requirements to be classified as "high performance banks" (HPB's). These banks had several performance characteristics which differentiated

them from non-HPB banks. Among these were higher average security-to-asset ratios, lower proportions of troubled loans, higher proportions of municipal securities, a greater share of deposits in the form of demand deposits and a lower level of noninterest expense to total expense.

Jim McGlone presented "Contingent Claims and Bank Behavior" which is described on page 16.

Jim Mikesell presented "Does Rural Lending By Branching Banks Match Their Presence in Rural Markets: The Agricultural Loan Example." The paper shows that, compared to their local bank competitors, multiple-market banks do less agricultural lending. However, this may not reflect a bias against rural lending by larger branching banks and holding company linked firms, which is detrimental to rural communities. One possibility is that larger banks were more hesitant to classify loans as agricultural, given the troubles that accompanied agricultural lending during the 1980's. Another favorable possibility is that multiple market banks tend to specialize in consumer or nonagricultural business loans, leaving local banks free to devote more resources to agricultural lending.

Cliff Rossi presented "Determinants of Undercapitalized Thrifts." The objective of **Cliff's** analysis was to determine what types of thrifts are likely to be out of compliance with the new risk-based capital standards. He found that net interest margin, return on assets and portfolio composition are all important predictors of compliance with the new capital standards. Smaller firms are more likely to meet the standards. However, within a size class, the probability of complying with the new standards for rural thrifts is not different from that of urban thrifts.

Upcoming Events

"A Cost Structure Analysis of the Thrift Industry," by **Cliff Rossi**, has been accepted for presentation at the Southern Finance Association Meetings this November. The paper is a by-product of a much more comprehensive analysis **Cliff** is currently completing for the Office of Thrift Supervision.

Cliff also submitted "Scale and Scope Economies of Rural Savings and Loans" for presentation at the Northeast Agricultural and Resource Economics Association's annual meetings this June.

Personnel

Cliff Rossi is currently on detail to the Office of Thrift Supervision (OTS) to work on a special study of the cost

structure of the S&L industry. His work will be used in upcoming Congressional testimony by the OTS on the effects of a less restrictive branching policy for these firms. While on detail, Cliff will also prepare policy analyses on various issues for the agency. Cliff's detail will last at least to August, and perhaps beyond.

Agricultural Finance Section

Research & Analysis

Douglas Duncan and **George Wallace** are working on a statistical bulletin comparing the annual performance of different size agricultural banks to their small nonagricultural counterparts. Year-end data for each year of the 1980's will show that, while suffering poor performance at mid-decade, agricultural banks were in solid recovery by the end of the decade, outperforming other bank types.

Robert Collender, **Cliff Rossi** and **Rich Nehring** (RTD) are using parametric and nonparametric techniques to model the operating efficiency and production economies of Farm Credit System (FCS) direct lending associations (Production Credit Associations, Federal Land Credit Associations, and Agricultural Credit Associations). The research should provide insight into the effectiveness of further restructuring of this Government-Sponsored Enterprise.

Douglas Duncan, **Jim Mikesell** and **George Wallace** conducted their annual survey of State-sponsored farm credit programs. The combination mail/telephone survey was needed to collect the information used to generate the credit subsidy estimates for the U.S./Canada Free Trade Agreement. During 1989, 26 States operated one or more programs which provided \$65 million in subsidies to the farm sector, approximately 2 percent of the total estimated subsidies of all government-sponsored farm credit programs.

Ted Covey is initiating a project on managing financial risk with a focus on agricultural financial management. Reducing the likelihood of risks, building risk-bearing capacity, and transferring risk to other economic units all warrant careful consideration in agricultural financial management. Many financial institutions prefer to use the futures market to hedge against interest-rate fluctuations rather than passing interest-rate risk on to their customers through floating-rate loans. The result of a reduction in risk through the use of financial futures could be a more

efficient allocation of scarce funds within each financial institutions and within the financial system.

Publications

Farm Financial Stress, Farm Exits, and Public Sector Assistance to the Farm Sector in the 1980's (AER 645), by **Jerry Stam**, **Steven Koenig**, **Susan Bentley** (FRE), and **Fred Gale** (FRE) was published in April. The report indicates that during the last decade, the U.S. farm sector experienced the worst financial stress since the 1930's. Families leaving agriculture during the decade received considerable national attention, but the numbers were small by historical standards. When adjustments are made in farm numbers because of the 1974 change in the definition of a farm, the average annual decrease in farm numbers for 1980-90 was almost the same as that for 1970-80. This report places the farm financial stress and farm exits in the 1980's into context using a variety of information. The effects of short-term economic events on farm exits, net changes in farm numbers, long-run trends in farm numbers, and public sector support of the farm sector are examined.

Agricultural Income and Finance: Situation and Outlook Report (AFO-40) was published in February. This report was coordinated by **Jerry Stam** with contributions by 8 other analysts from the Finance and Development Policy Branch, National Economy and History Branch, and Farm Sector Financial Analysis Branch. Financial institutions serving agriculture continued to recover in 1990. The delinquent portion of loan portfolios was steady for the most part at mid-1990. Farmers remain cautious about taking on new debt. Despite the much publicized problems of large urban commercial banks, farm banks continued their recovery in 1990. Direct Farmers Home Administration (FmHA) lending during fiscal 1990 was \$200 million below last fiscal year, dropping below \$1 billion for the first time since 1972. Through aggressive restructuring and increased foreclosures, FmHA is finally reducing its stock of delinquent loans. The financial condition of Farm Credit System institutions continued to improve gradually during 1990. The outlook for the Farmer Mac secondary market improved somewhat.

"Do Advance Deficiency Payments Affect Credit Markets?" by **Merritt Hughes** was published as a special article in AFO-40. Since 1982, \$26.3 billion in advances have been issued on target deficiency payments for USDA commodity programs, lowering credit usage according to some analysts. To the extent that advance deficiency payments lower borrowing, they impact other Federal programs that increase borrowing. For example, government costs of the FmHA guaranteed operating loan program may be more difficult to justify if farmers need less credit. The

magnitude of the interactive forces is ambiguous due to lack of data and the number of factors affecting credit volume. For a guideline, however, the volume of advance deficiency payments is compared with credit extended to farmers under FmHA guaranteed lending programs and yearly changes in institutional farm debt. Results reveal that advance payments were inversely related to FmHA guaranteed obligations and changes in private institutional farm debt during most of the 1980's.

"Have Mergers Improved the Financial Performance of Farm Credit Banks?" by Robert Collender was published as a special article in AFO-40. The financial crisis of the 1980's precipitated changes in the structure and management of the Farm Credit System (FCS). This article documents changes in financial performance of certain FCS district banks before and after mergers of Federal Land Banks and Federal Intermediate Credit Banks into Farm Credit Banks. No significant impacts of mergers on cost control are observed. Risk reduction was achieved to the extent that within district diversification potential was internalized; however, there is no evidence that mergers led to improved risk management. This article was featured in the April 1, 1991 issue of the "Webster Agricultural Credit Letter."

An Analysis of Financial Performance of Federal Intermediate Credit Banks, Federal Land Banks, Farm Credit Banks, and Related Associations, 1986-89 (AGES 9117) by Robert Collender was published as a staff report in April. This report documents the changes in financial performance of district aggregates of FCS institutions from midyear 1986 through year-end 1989. The FCS experienced substantial, although unevenly distributed, improvement in most areas. Profitability rose and riskiness fell for the system as a whole. This improved financial performance is primarily because interest income per asset dollar rose faster than noninterest operating expenses per asset dollar. However, the system failed to control its operating expenses relative to its assets.

Toward An Analysis of the Farmers Home Administration's Direct and Guaranteed Farm Loan Programs (AGES 9116) by William Herr of Southern Illinois University was published in April as a staff report. This study was conducted under the auspices of a research agreement with ERS. FmHA new farm loan activity has rapidly shifted from direct to guaranteed lending. This study determines how this change affects the farm sector and farm credit markets. Objective models of the two alternative credit delivery modes were constructed. They indicate that a complete shift to guaranteed loans would exclude some low-income, low-risk borrowers who previously received direct loans and reduce the agency's role in the farm credit market. The study found that this conclusion depends in part upon the elasticities of credit demand and supply.

Welfare analyses show that borrowers and lenders are affected differently by the two kinds of credit programs. In order to minimize the deadweight loss to society, credit program selection must take into account the elasticity of farm credit demand and supply. The analysis also showed that credit program selection depends upon the objective of the program.

"Agricultural Interest Rates and Inflationary Expectations: A Regional Analysis" by Ted Covey and Ronald A. Babula (NEH) was published in the *Journal of Agricultural Economics Research* Vol. 42, No. 4, 1990. The Fisherian hypothesis was tested for four regional agricultural interest rates in the 11th Federal Reserve District (Dallas). These interest rates represented agricultural loans of different terms to maturity. Shocks in expected inflation resulted in positive but less than equivalent responses in all four rates. The empirical evidence from the impulse response function suggested that Fisher's relationship holds imperfectly for agricultural interest rates in the Dallas Federal Reserve District.

"Ample Credit Is Available," by Douglas Duncan and Jerry Stam was published in the March Issue of *Agricultural Outlook* (AO-172). It was pointed out that farmer borrowers are being cautious about using additional credit and that lenders, particularly commercial banks, are in a strong position to satisfy high quality credit demand. Nonetheless, bank management maintains that loan-deposit ratios are still below the level which they desire. However, banks increased their farm loan market share for the seventh straight year. Farm Credit System loan quantity was up while life insurance company loans held constant and FmHA loan quantity dropped.

"Soviets Retreat from Economic Reform," by Ed Cook (ATAD) and Robert Collender was also published in AO-172. The paper describes how the Supreme Soviet failed to adopt substantial legislation on economic reform for two crucial reasons. First, the program had numerous inconsistencies and understated the difficulties associated with reform. Second, strong broad-based resistance to radical economic changes existed outside the top level of government. Meanwhile, the soviet economy continues to contract amid accelerating inflation. These factors coupled with the populist posturing of government leaders prevent price liberalization which is necessary to achieve economic reform. Agricultural reform is hindered by these same factors as well as strong vested interests in the collective sector, daunting structural barriers, and dysfunctional credit policies.

"Agriculture is Thwarting Soviet Economic Reform," by Robert Collender and Ed Cook (ATAD) was published in the *Newsletter for Research on Soviet and East European*



Agriculture is an important and conservative sector of the Soviet economy.

Agriculture. Agriculture is an important and conservative sector of the Soviet economy. The sector accounts for over one-third of employment and investment. Spending on agricultural products accounts for 70 percent of disposable consumer income. Vested interests in heavily subsidized consumer prices resist price liberalization. The results are a stagnating economy amid accelerating inflation and hoarding of agricultural production which further exacerbates the shortages.

American Indians: *The First of This Land*, by C. Mathew Snipp, was reviewed by Jerry Stam in the October-January 1991 issue of *Rural Development Perspectives*. This book destroys a number of myths about American Indians in today's economy. In fact, this work may be regarded as a benchmark volume. Because it is carefully indexed, it may be effectively used as a reference handbook on many topics pertaining to the socioeconomic status of American Indians.

Papers Presented & Meetings Attended

A study by Steve Koenig and Lindon J. Robison and Steven D. Hanson of Michigan State University entitled "Market Value Versus Agricultural Use Value of Farmland" was presented at the Economic Accounting for Commodities and Returns Conference in Kansas City, MO on February 20-21. This study examines the current data available for studies of farmland market value and develops a methodology to find the agricultural use value of farmland from market value data. The model permits estimates of the importance of agricultural income and nonfarm income

in the determination of farmland's market value. Results from the model suggest that there is an increasing divergence of farmland's market value from its agricultural use value.

Robert Collender and Ed Cook (ATAD) presented a speech on "Economic Reform and Agricultural Finance in the Soviet Union" at the Spring meeting of the National Agricultural Credit Committee held in Washington, D.C.

Briefings & Miscellaneous

Robert Collender and Richard Nehring (RTD) collected data from the Farm Credit System (FCS) association annual reports to supplement the FCS call report data at the Farm Credit Administration in McLean, VA. The database they have created will be used for research on the economic behavior of FCS institutions as well as support for staff and situation and outlook work.

George Wallace received a spot cash award in March for "invaluable assistance in developing and presenting the database of the annual lender issue of *Agricultural Income and Finance: Situation and Outlook Report* (AFO-40)."

Ted Covey attended the "Money, Macroeconomics and Forecasting" meetings on February 21-22 in Washington, D.C. presented by the Cato Institute.

Douglas Duncan and George Wallace attended the "Strategies to Limit Lender Liability" seminar on January 31 in Washington, D.C. presented by the American Bar Association.

Upcoming Events

Robert Collender and Cliff Rossi will present, "Production Economies and Efficiencies in a Government-Sponsored Enterprise: The Farm Credit System" at the Financial Management Association annual meetings in Chicago, October 9-12, 1991.

Government and Development Policy Section

Research & Analysis

Anicca Jansen is a member of a research team that is examining multi-community collaboration; the researchers will rely heavily upon a case study approach. In April, Anicca attended a three-day research planning meeting in Chicago. The meeting focused on the multi-disciplinary research strategies to be used in the upcoming case studies and included several interviews with representatives from potential case study sites. Present at the meeting were the four members of the research team (Anicca, Beverly Cigler, Vern Ryan and Jack Stabler); Ray Vlasin, Michigan State University, a member of the project planning committee; and Tim Borich, Iowa State University, project coordinator. Three case study sites were chosen: Custer County, Nebraska; Gratiot County, Michigan; and selected communities in the Drumheller-Calgary region, Alberta, Canada.

Results of the case studies will be presented at a November 1991 conference. Anicca is also coordinating a panel for the November conference. This panel will address multi-community collaboration among, and with, Native American communities. The research and the conference are being sponsored by the North Central Regional Center for Rural Development at Iowa State University.

Peter Stenberg has submitted a paper entitled "The Concept Behind Universities' Role in Regional Economic Growth" to an economic journal. This paper is derived from Peter's dissertation, which he recently completed at the University of Minnesota.

Publications

The second in a series of reports on rising per capita income inequality by John Redman and Tom Rowley is being published as an ERS Staff Report. *A State-level Examination of Metro/Nonmetro Per Capita Income Inequality,*

1979-87 explores income inequality between metro and nonmetro counties within States. The analysis concludes by suggesting that a Federal rural development policy should be considered an important step in slowing the rapid divergence among State per capita incomes that occurred during the 1980s. The third manuscript in the series also looks at whether rural development efforts can stem the rising inequality, and is being prepared for publication as a journal article.

The *Journal of the Community Development Society* (Volume 21, 1990) published an article co-authored by Gary Green, Jan Flora, Cornelia Flora, and Fred Schmidt. "Local Self-Development Strategies: National Survey Results" is based upon research that the authors carried out under a cooperative agreement with ERS. Some of the key findings are:

- (a) self-development efforts tend to complement, rather than replace, traditional rural economic development activities,
- (b) the jobs produced by self-development are taken primarily by local residents.

Dave Sears has provided overall guidance for the research from ERS.

Tom Rowley and Norm Reid (OD) published "Seeking a Rural Development Policy: Lessons from the National Commission on Agriculture and Rural Development Policy" in *Choices* (first quarter 1991). The article describes the work of the National Commission and provides a brief synopsis of its findings and recommendations.

Papers Presented & Meetings Attended

Dave Sears chaired a panel on "Public Policy Issues and Rural Economic Development" at the annual meeting of the Southeast Region of the Decision Sciences Institute. The meeting was held in Arlington VA in February. Dave spoke on the key choices that a State must make when organizing for rural economic development. Martha Frederick (HRI) was also on the panel; she spoke on the role of entrepreneurial activities in stimulating rural economic development.

Briefings & Miscellaneous

Tom Rowley and Anicca Jansen have joined Norm Reid (OD) as co-coordinators for the "Partners in Rural Development" brownbag seminar series. The series invites participants from all facets of rural development to share research results, program activities, and ideas. It meets

monthly, usually in the Waugh Auditorium. To be added to the mailing list, call Tom or Anicca at (202) 219-0542.

Copies of these papers are available.

Request them from the authors.

Rick Reeder was appointed to the Local Transportation Finance Committee of the Transportation Review Board (TRB). The TRB is an advisory body of the National Research Council; its goal is "to bring scientific and technical information to bear on transportation problems by encouraging and conducting research, and disseminating information." Rick attended his first committee meeting in January in Washington, D.C. He was appointed to provide input concerning rural transportation finance issues. Anyone with information bearing on this topic should contact Rick.

Under a cooperative agreement with ERS under the guidance of Dave Sears, a team of researchers from four universities (Kansas State U., U. of Georgia, U. of Vermont, and Virginia Tech) have been conducting research on self-development as an approach to rural development. The research team, headed by Jan Flora, has identified 103 cases of self-development. They have collected information on all 103, and have carried out in-depth case studies of nine of these. Final reports to ERS are currently in preparation. Meanwhile, the researchers have presented their findings at two recent meetings. One presentation was made at the U. of Georgia conference on "Revitalizing Rural America: New Strategies for the Nineties," held on February 18-20. In addition, on February 1-2, the research team put together an entire conference on "Local Self-Development in the Rural Midwest." This meeting, held in Omaha, included presentations on overall research findings as well as detailed descriptions of specific cases by representatives from eight of the identified self-development communities.

As a part of the Presidential Initiative on Rural Development, four pilot State Rural Development Councils were provided training at the Rural Economic Development Institute. This Institute was held in San Diego from March 10-14. Dave Sears attended in his role as Monitor for the Washington State Council, and in his role as a member the Presidential Initiative's Outcome Monitoring Team. The week included a number of substantive presentations on various aspects of rural development, and--perhaps more importantly--enabled each of the attending State Councils to begin work on putting together rural development strategies.

Personnel

During the January-May period, Bill Amt worked at the Soil Conservation Service on a volunteer basis. Bill, who is a part-time ERS economic assistant and a graduate student in planning at George Washington University, has spent his time at SCS learning GRASS (a Unix-based geographic information system program) through hands-on experience. On April 25, Bill received an award for his good volunteer work at SCS--a certificate of appreciation through the Points of Light National Celebration of Community Service.

Rural Finance and Tax Section

Research & Analysis

James McGlone is working on a paper entitled "A Microeconomic Model of Banking Under Uncertainty". The paper models the bank as a profit maximizer that faces uncertain deposit flows, loan demand, default rates and future collateral values. The results from analysis of the model show the values of the bank's choice variables, deposit and loan interest rates, reserves, and collateral requirements, moving in expected ways in response to changes in the distributions of the exogenous variables. The paper was presented at the Eastern Economic Association Meetings in Pittsburgh, Pennsylvania on March 15. It was also presented to the Meeting of the Southeast Region of the Decision Sciences Institute in Crystal City Virginia on February 27, under the title "Contingent Claims and Bank Behavior."

James McGlone and Felice Marlbor have compiled data on the number of limited access highway interchanges at the county level for all rural counties. This information is not available elsewhere at the national level. It will be used to investigate the effects of Federal direct credit assistance on income and employment growth.

Publications

Nonmetro, Metro, and U.S. Bank-Operating Statistics, 1987-89, Statistical Bulletin No. 823, by Jim Mikesell and Felice Marlbor, was published in March. This report presents and analyzes weighted and unweighted mean-operating statistics for nonmetro, metro, and all U.S. banks, updating reports for 1985 and 1986. Nonmetro banks had higher returns

and fewer problems than did metro banks in 1989. The aggregate financial condition of nonmetro banks improved during 1989, but the condition of metro banks deteriorated. Banks in the Northeast and South were the most troubled; and banks in agricultural and energy-dependent counties had recovered from their mid-1980's problems.

Rural Conditions And Trends Special Report on Financial Institutions and Markets includes an article on "Deposit Insurance Reform" by Dan Milkove. By giving confidence to depositors, our system of deposit insurance has prevented systemwide bank runs from developing in response to reported problems at individual financial institutions. But because depositors did not need to monitor the behavior of their financial institutions, weak firms could obtain deposits simply by raising the interest rate paid on deposits. Combined with inadequate regulation and controls on the types of permissible investments, the cost of closing failed savings and loan associations is much higher than would otherwise have been the case. Proposals by the Treasury Department and others to reform deposit insurance are designed to prevent future problems at banks and surviving S&L's. Treasury wants to lower the effective ceiling to \$200,000 in insured deposits (including retirement accounts) per person and per bank. Others suggest charging higher premiums to banks that make riskier loans, requiring that insured deposits be invested only in safe assets such as government securities, or even replacing government insurance by a private program devised and operated by the banks themselves.

Papers Presented & Meetings Attended

In February, Dan Milkove attended a conference, "A Crisis in Values: Real Estate and the Financial System," sponsored by the National Taxpayers Union Foundation. Some of the speakers did address problems in the real estate sector, but the conference incorporated other issues connected with serious difficulties in the banking and thrift industries. The timing of the conference was propitious because the Treasury Department released its study *Modernizing The Financial System: Recommendations For Safer, More Competitive Banks*, just a couple of days earlier.

Upcoming Events

Ron Durst and Michael Compson have submitted a paper "The Impact of the 1986 Tax Reform Act and the 1983 Social Security Amendments on Farmers" for presentation at the Northeastern Agriculture and Resource Economic Association Conference in June. Using the 1987 Individual Tax File, the analysis examines the impact of the 1986 Tax

Reform Act and the 1983 Social Security Amendments on the effective Federal income and social security tax rates and average tax payments. To capture the most recent changes in the Federal income and payroll tax structures, the 1987 tax file was adjusted to reflect 1990 values using Congressional Budget Office projections. The analysis found that despite the sharp reductions in marginal income tax rates, the Federal income tax continues to be progressive. But the regressive nature of the social security and self-employment tax greatly reduces the progressivity of the combined Federal income and payroll tax burden. The combination of reduced effective income tax rates for the highest income farmers and increased effective payroll taxes for low income farmers narrowed the combined effective tax rate range from 11-26 percent in 1987 to 15-24 percent in 1990. The analysis also found that for most farmers, the combined social security and self-employment tax payments exceed Federal income tax liability.

NATIONAL ECONOMY AND HISTORY BRANCH

View from the Branch

By Tom Hady

Five years ago, with the reorganization of 1985, the Aggregate Analysis and Macroeconomics Branch was founded. (A couple of years later, with the addition of the Agricultural and Rural History Section, it became the National Economy and History Branch.) Five years seems like a good time to take stock.

The need for the branch was, in itself, a commentary on the changing role of agriculture in the economy. As late as the 1950's, there was still discussion in my agricultural policy class whether it was true that depressions were "farm led and farm fed." By the 1980's farming's role in the economy had diminished to a point where it was clear that the predominant causal relationships went the other way. Agriculture was in a period of distress, and macroeconomic events were part of the cause. We needed better analysis of the connections between farming and the national and international economies, and we needed to harness it to the situation and outlook process in ERS. At the same time, we needed to broaden the work to recognize that farming no longer accounts for the majority of the economic activity in rural America. We needed to know more about how

macroeconomic changes affected manufacturing, construction, services and all the other activities in nonmetropolitan places.

I think we have made considerable progress on the agricultural front. ERS situation and outlook analysts now have available every month a consistent set of macroeconomic forecasts as background for their commodity outlooks, and the macroeconomic forecasts have had quite a favorable record of accuracy. A number of investigations have improved our understanding of the relationships between agriculture and the general economy. Our competitive general equilibrium models give us the capability of analyzing proposed policy changes in a framework where resources may flow from one sector to another, a very useful expansion from our input/output work. With vector autoregression techniques and some work at the frontiers of CGE modelling, we are making halting steps toward understanding the mechanisms by which movement takes place over time. Jerry Schluter summarizes some current output in the news from his section, below.

Progress on the general rural economy has come more slowly, but it has nevertheless been substantial. We now have a framework for allocating the results of CGE modelling efforts among metro and nonmetro areas. We have studied the relationship between national economic changes and nonmetro employment. We will soon publish a study relating nonmetropolitan unemployment to the national economy, and are using those results experimentally in the outlook.

That's good progress, but there's room for as much more in the next five years.

Congratulations to Gerald Schluter, who received an Administrator's Superior Service Award for his management of the National Aggregate Analysis Section, and to Schluter, Caroline Fohlin and Sherman Robinson for the best article in the Journal of Agricultural Economics Research last year.

Agricultural and Rural History Section

Research & Analysis

Doug Bowers was active on the ERS 30th Anniversary Committee, which planned the conference April 4. In

addition to committee activities, he put together a reading list of major books and articles on ERS history and participated in an OPEDA panel April 11 which summarized the conference. Doug also gave assistance to Dwight Gadsby (RTD) in setting up the photo exhibit at the Convention Center. The ARH Section will be maintaining a formal photo archive with old ERS photos that have come to light during the anniversary celebration. The Section will gladly receive interesting photos of ERS (or BAE) personnel, office scenes, etc. The Section also helped several conference participants with their presentations.

Dennis Roth has been active on the Department's Folklife Festival Task Force, which is aiding the Smithsonian in organizing the family farming exhibit at this year's Folklife Festival. Dennis and other Section members have answered a number of requests from the Smithsonian staff on the economic history of American agriculture.

WANTED

**Pictures of ERS (BAE)
People in Action**

Contact Doug Bowers (202) 219-0780

Papers Presented & Meetings Attended

Ann Effland, Vivian Wiser, and Doug Bowers attended the annual meeting of the Society for History in the Federal Government, April 22 at the Library of Congress. The meeting, of federal historians from a number of government agencies, included a session on the National Park System as rural landscape.

Doug Bowers went to the annual meeting of the American Historical Association in New York, December 28-30. The AHA, as the leading historical association in the U.S., attracts several thousand historians to its meetings and schedules sessions on all aspects of history, including economic and rural.

Lowell Dyson co-chaired the semi-annual D.C. Historians Luncheon at George Washington University, April 5 which several USDA historians attended.

Lowell Dyson, Agricultural and Rural History, attended the Missouri Valley Historical Conference, April 14-16, in Omaha and gave a paper, "The Women's Land Army of

World War II," as part of the session, "Women in Agriculture During the Twentieth Century."

In Louisville on April 14, **Lowell Dyson** chaired a session, "Twentieth Century Farm Movements and Politics," at the annual meeting of the Organization of American Historians. One of the papers was delivered by William P. Browne of Central Michigan University and Resources of the Future, who was an ERS cooperator in 1987 and 1990.

Joel Schor gave a paper on blacks in American agriculture at a conference of the National Society for Minorities in Agriculture, Natural Resources and Related Sciences (MANRRS), April 5-6 in Gainesville, Florida.

Macroeconomics Section

Research & Analysis

Situation and Outlook: With the economy in recession, there appears to be increased interest in macroeconomic situation and outlook work. Briefings on the performance of the macroeconomy during the recession have been conducted for ERS and USDA officials. Recent situation and outlook publications include "General Economy: Recession Continues," *Agricultural Outlook*, April 1991, and "Recession Talk Dominates Macroeconomic Scene," *Rural Conditions and Trends*, Winter 1990/91. The general theme of the briefings and the articles is that the current recession will likely be mild by historical standards.

Paul Sundell and **Mark Denbaly** are completing a staff paper that empirically models long-term Treasury bond yield determination. The Treasury bond rate is important in that it sets a floor for other long-term bond rates. As a result, movements in the long-term Treasury bond rate have large impacts on agricultural terms of lending. Moreover, changes in real long-term Treasury bond rates influence intermediate and long-term real U.S. growth, and thus, final food demand. Changes in the differential between real U.S. and foreign bond rates also influences real exchange rate movements and therefore agricultural trade conditions.

Paul and Mark find that bond yields strongly react to money market shocks, particularly money market shocks caused by higher inflationary expectations. The paper also finds that shocks generating higher real foreign bond rates push real U.S. long-term bond rates upward. The strong

sensitivity to real foreign bond rates indicates U.S. and foreign bonds have become closer substitutes in the 1980's. Liquidity premiums on long-term bonds were found to be dependent upon the previous month's change in the T-bond rate and the slope of the yield curve. Contemporaneous declines in the real economic outlook as proxied for by the change in the unemployment rate were found to push Treasury bond yields lower, independent of their impact on money market conditions. The model was fit to monthly 1980 through 1989 data. Out-of-sample forecasts for 1990 T-bond yields were produced by the model. A staff paper will be out shortly.

John Kitchen and **Beth Mack** examined various simulations in a macroeconomic model as a basis for "Macroeconomic Shocks: Effects on the General Economy, Agricultural Prices, and Rural Unemployment." The macroeconomic model used for the simulations is a structural, simultaneous equation model of quarterly frequency based on the Neoclassical-Keynesian Synthesis of macroeconomic theory. Equations for various food and agricultural prices, as well as an equation for the nonmetro unemployment rate were incorporated into the model. Both forward and backward price linkages are included in the model, in the sense that food and agricultural prices both affect and are affected by macroeconomic variables. The shock scenarios examined include: expansionary monetary policy, restrictive fiscal policy, depreciation of the dollar, oil price increase, and a drought. For each scenario, the responses for key variables are discussed and presented in graphical form. The key variables include: real GNP growth, inflation, interest rates, real net exports, prices received and paid by farmers, and civilian and nonmetro unemployment rates.

Cointegration Used To Study Elasticities and Adjustments Toward Equilibrium

Mark Denbaly has been working with a recently developed technique called cointegration, which is designed to identify if a stable long-run relationship exists between some variables. If a stable long-run relationship exists, a dynamic model (referred to as error-correction model) can be constructed that corrects for the errors resulting from short-run deviations of the dependent variable from its long-run equilibrium levels. The procedure allows for measurement of short- and long-run elasticities as well as the speed of adjustment toward the long-run equilibrium. The cointegration technique has proven to be useful in a variety of applications. Cotton-based prices were examined in a recent analysis written together with Professor David Bessler of Texas A&M University and **Ron Babula** (NEH): "Modeling Cointegrating Relationships Among More Than Two Variables." Tests indicated that monthly farm cotton, industrial gray cotton fabric, finished cotton fabric, and

general apparel prices are cointegrated. To illustrate the power of the approach, forecasts of the error-correction model were compared to those of vector autoregression models in levels and first differences. The results were impressive. By accounting for the dynamic process, the error-correction model significantly beat the other two models 68 times out of the 80 forecasts.

In another application, "Dynamic Fertilizer Nutrient Demands for Corn: A Cointegrated and Error-Correcting System," Mark and Harry Vroomen of ERS, used the techniques to estimate the short- and long-run elasticities of fertilizer demand. Measurement of these elasticities are important from a policy perspective. Policymakers concerned with water quality often consider strategies such as a tax to reduce the pollution associated with fertilizer use. The extent of fertilizer demand response to price changes is the essential information to assess the effectiveness of a tax policy. Mark and Harry applied their analysis to corn which accounts for nearly half of the total U.S. nutrient use. In direct contrast to previous studies, nutrient (nitrogen, phosphate, and potash) demands are found to be price inelastic, ranging from -0.19 to -0.21 in the short run and -0.31 to -0.41 in the long run. This suggests that a tax on fertilizer use would be of limited effectiveness. The analysis also demonstrates that the nutrient demands are elastic both in the short and the long run with respect to prices of land (a substitute for fertilizer) and labor (a complement).

In a third study using the cointegration technique ("Soviet Feedgrain Consumption: Is There a Stable Longrun

Relationship?"), Mark has explored the possibility of specifying Soviet feedgrain consumption demand. The question begged the analysis because Soviet import demand studies have almost unanimously assumed that consumption is targeted and, therefore, fixed. If consumption is not exogenous, then given a production level, direct modeling of imports includes errors related to the stochastic component of consumption behavior. The approach helps to explain why earlier efforts to predict Soviet imports have not been successful. Mark has found that over the 1965-1989 period consumption, international precious metal prices, U.S. corn price, policy-determined planted acreage, and yield are cointegrated, indicating that the relationship is stable in the long run. The error-correction version of the cointegrating relationship produced a robust dynamic model, providing strong statistical evidence against the often-made assumption that consumption is predetermined. Mark concludes that analyses involving Soviet import behavior must model consumption and imports simultaneously.

Currently, Mark is preparing a paper "Dynamics of Agricultural Commodity Prices: The Case for Agriculture," to be delivered at the Western International Economic Association Meetings this summer. Using two common definitions of short- and long-run equilibria, he constructs a model that incorporates the causes of deviation of relative agricultural prices from their equilibrium levels. He shows that departures from equilibria are the result of movements in the real exchange rate, real domestic and foreign income, real anticipated and unexpected rates of interest, and the beginning inventory level. The parameters of the model can be estimated using the cointegration and error-correction techniques. The preliminary results of applying the model to quarterly wheat prices show that changes in the real value of the dollar, real interest rates, and inventory affect the relative price negatively while fluctuations in the foreign and domestic levels of income affect the price positively. Finally, 41 percent of the deviation from the long-run in any quarter is corrected in the subsequent period.

Upcoming Events

Karen Hamrick edited the proceedings of the 1990 Federal Forecasters Conference. Karen is also involved in organizing this year's Federal Forecasters Conference, which will be held September 12, 1991 at USDA South Building. The theme of this year's conference will be "The Coordination of Federal Forecasting Activities." For a copy of *Federal Forecasters Conference 1990: Proceedings*, or for information on this year's conference, call Karen on (202) 219-0782.



Cointegration helps in analyzing agriculture from a macro-perspective.

**Federal Forecasters Conference
will be held
September 12, 1991.**

For information call Karen Hamrick (202) 219-0782.

National Aggregate Analysis Section

Research & Analysis

A major mission of the National Aggregate Analysis Section is to study the interactions between the farm and rural sectors and the rest of the economy. The section uses a variety of tools for this research. For example, we model the economy-wide real employment, output, and income using comparative statics from computable general equilibrium and input-output models. While the CGE models give price data at the two equilibrium points, they do not show the price dynamics of the adjustment process. As typified by the following three articles, we have rather successfully tapped vector autoregression (VAR) techniques to gain insight into several adjustment processes.

Ken Hanson and **Karen Thierfelder** have been helping **Mary Burfisher** (ATAD) construct the U.S. component of a linked U.S./Mexico trade model which will be used for studies of the potential U.S.-Mexico free trade agreement. Ken has provided data and programming support modifying the sectoral characteristics and updating the ERS/CGE model to 1987. Karen has been working with Mary to incorporate domestic agricultural policies into both the U.S. and Mexico models. They are drawing on the cooperative agreement work of **Maureen Kilkenny**, Penn State, who is just completing an ERS Staff report documenting her efforts incorporating the 1985 Farm Program provisions into the ERS/CGE model.

Publications

Ron Babula and **Dave Bessler** published the article, "The Corn/Egg Price Transmission Mechanism," in the December, 1990 issue of the *Southern Journal of Agricultural Economics*. For this article, the authors estimated a vector autoregression (VAR) model of corn, farm egg, and retail egg prices and simulated a shock in the model with a corn price increase. When corn prices change sharply economic

forces are put into play that change egg prices immediately and these price influencing forces continue for a year and a half. Further, egg prices change over this 1.5 year period by about one-third of the change in corn price. There was insufficient statistical evidence to support a hypothesis that model parameters have changed over the 33 year, 1957 to 1989, estimation period for the model.

Ted Covey (FDP) and **Ron Babula** published the article, "Agricultural Interest Rates and Inflationary Expectations: A Regional Analysis," in the *Journal of Agricultural Economics Research* Vol. 42, No. 4, 1990. (See FDP section page 13.)

Ron Babula, published "Dynamic Impacts of the August, 1990 Shocks in Oil Price on Agricultural Chemical and Fertilizer Prices," in the *Proceedings*, Twenty-First Annual Meeting, Southeast Decision Sciences Institute (Feb. 1991). He presented a vector autoregression of monthly crude oil, chemical (agricultural and industrial), and fertilizer prices in which a one period crude oil shock (increase) was imposed on the model and analyzed. Agricultural chemical and fertilizer prices were found to respond to each percent rise in crude oil price by about one-fourth of a percent. These responses occur over a 27-28 month period.

But, research on price dynamics was not the only research published this quarter. **Chinkook Lee** and **Darryl Wills** published, "U.S. has a Competitive Edge" in the April 1991 issue of *Agricultural Outlook*. The article was based on their detailed analysis of the factor intensity of U.S. agricultural trade. The article demonstrates the land intensity of U.S. agricultural trade, how agricultural trade serves as a market for the services of abundant land, and suggests that in the long run, freer agricultural trade would help U.S. farmers.

Papers Presented & Meetings Attended

On Friday, December 28, **Chinkook Lee** presented a paper, "An Analysis of North Korea's Attempt at Economic Development" at the 1990 Allied Social Science Association Meetings in Washington D.C.

Ron Babula presented the paper, "Dynamic Impacts of the August, 1990 Shocks in Oil Price on Agricultural Chemical and Fertilizer Prices," at the Southeast Decision Sciences Institute on March 1, 1991, held in Arlington, VA.

Briefings & Miscellaneous

Maureen Kilkenny, Department of Economics, Pennsylvania State University, presented a seminar, "30-30-

30 - A CGE Simulation of Unilateral Compliance by the U.S. to Partial Liberalization" in which she reported an application of farm policy modeling enhancements she made to the ERS-CGE model under a cooperative agreement with ERS.

Personnel

Andy Bernat left NAA to become the Head of the Rural Industry Section in the Human Resources Branch, ARED.

Karen Thierfelder left NAA to join the Macroeconomic Policy Section, Developing Economies Branch, ATAD.

FARM AND RURAL ECONOMY BRANCH

View from the Branch

by Tom Carlin

Please join me in extending a warm welcome to **Leslie Whitener**, our newest addition to the FRE management team as leader of our Agricultural Labor Section. Leslie comes to us with an extensive background of research and staff analysis in agricultural and rural labor issues. Leslie has already demonstrated her leadership qualities in the new job and I look forward to working with her in the coming years. I also want to thank **Jim Duffield**, **Vic Oliveria**, and **Jack Runyan** for their strong support in helping me keep the Ag Labor Section "moving ahead" after Bob Coltrane retired.

In the fall of each year, each division in ERS is asked to nominate people for the administrator's special merit award. I am really proud of the two nominees from FRE.

The first nominee was **Neal Peterson**. Neal has devoted the majority of his professional career to enhancing the ability of ERS to project structural change in the U.S. farming sector. He has worked diligently with Census Bureau staff to develop the longitudinal match file of sequential Censuses of Agriculture. This file contains data for a limited number of variables for each respondent to the Ag Census starting in 1978. He has also recently developed a rigorous and original method of analyzing the effect of different economic/demographic variables on the rates at which farms change from one sales class to another

over time. This whole activity has been a long and arduous task which is now beginning to pay substantial dividends both to ERS and to the agricultural economics profession.

The second nominee was **Sue Bentley**. Sue took national leadership in developing and publishing unique information on socioeconomic conditions of farm operators who left farming during the early and mid 1980's and what happened to those farm operator families after they left the farm. Susan's research provided critical insights that allowed ERS to respond to numerous information requests in an informed way that helped alter the national dialogue on the farm crisis. Her work was published in monographs and articles, was cited frequently in the popular press, was used in staff work, and she presented papers at professional meetings in the United States, Canada, and Europe. Susan's nomination led to her receiving the Administrator's superior service award.

Personnel

Sharon M. Davis, is our new Branch Office Manager. Sharon joined ERS in 1981, leaving Food and Nutrition Service (FNS). Since that time, she has worked in several sections within ERS including Manpower Studies, now referred to as Agricultural Labor Section (ALS), and Housing, which was abolished some years ago. Sharon, a native of Washington, D.C., currently resides in Oxon Hill, Maryland. She moved from D.C. 2-years ago in hopes of finding a better environment



Sharon Davis

for her (15 year old) son Jamason. Jamason, an only child, is an Oxon Hill High School (9th grade) student. Sharon enjoys spending her free time babysitting (Pumpkin) her niece, movies, walking, reading, and attending classes at USDA Graduate School. Her future intent is to eventually go back to school.

Agriculture and Community Linkages Section

Publications

Dennis Brown, **Mindy Petrulis**, and **Alex Majchrowicz** wrote "Outlook Dim for Food-Related Job Growth", which

appeared in the April 1991 *Agricultural Outlook*. The article stresses that only four food processing industries -- poultry dressing, meat packing, cheese processing, and frozen fruit and vegetable processing -- can be expected to offer significant nonmetro job growth.

Papers Presented & Meetings Attended

Dennis Brown presented "Linkages Between Meat Processing and the Economy of Local Communities" at the 87th annual meeting of the Association of American Geographers, held in mid-April in Miami. The impact of employment changes in the meat packing industry on nonmetro counties was assessed through the measurement of employment multipliers. The economic effects on a community of specific adjustments to employment changes in the meat packing industry were found to depend on whether counties gained or lost meat packing jobs. Counties which gained meat packing jobs were significantly impacted because meat packing firms in these counties accounted for a large proportion of total regional employment and the counties were isolated from metro counties. However, counties which lost meat packing jobs were not significantly impacted because only a small proportion of the counties' jobs were in meat packing firms and the counties were close to metro counties.

Alex Majchrowicz presented a paper on the regional employment performance of farm and farm-related industries at the Rural Planning and Development Conference held in Orlando, FL in February. Alex's paper focused on employment trends in farm-related industries in nonmetro counties during 1975-87 to reveal changes in the linkages of agriculture to these rural areas. Overall, agricultural production jobs declined in reaction to labor-saving technological advancements and periods of unfavorable economic conditions in farming. Other farm-related industries also declined or remained stable, but some nonmetro industries that process, market, and sell agricultural products experienced employment growth. The employment changes varied by direction and intensity among farm production regions.

Alex's work is part of the A&CL Section's expanded effort to release periodic reports on farm-related employment. The publications are based on an enhanced version of the Bureau of the Census' County Business Patterns data file. An April staff report, "Employment Trends in Farm and Farm-Related Industries, 1975-87", presented employment estimates for many selected industries. An Agriculture Information Bulletin planned for Summer 1991 will update the employment numbers with the 1988 data which has been recently released.

Farm Structure Section

Publications

Neal Peterson and Fred Gale published a staff report in March titled "Correcting for Nonresponse in Transition Matrices Calculated from Longitudinal Data." Their previous work with transition tables and Markov matrices drawn from census longitudinal data revealed the need of a method to adjust for the failure of farm operators to respond to the census questionnaire. The usual method, attaching weights to individual records, works well for cross-sectional data but is not accurate when applied to longitudinal data. The problem arises because nonresponding continuing farms are misclassified as either exiting or entering farms, and weights do not correct for this misclassification. Neal and Fred present an algorithm, based on four simple assumptions, that make the necessary corrections. The algorithm is easily implemented as a matrix multiplication exercise using Lotus 1-2-3.

Papers Presented & Meetings Attended

Alan Bird presented a paper "Unemployment versus Earnings-Perspective and Questions" at a seminar held at the U.S. Department of Labor on March 6. The main thesis of the paper was that the unemployment rate, the one universally recognized short-term indicator of labor market performance does not provide an adequate measure of the economic status of the labor force. He argues that some measure of labor force earnings should be given at least equal weight in determining the economic status of the labor force.

Nora Brooks attended a conference in Orlando in February titled "Rural Planning and Development: Visions of the 21st Century". Her presentation, "Farm Structural Trends in a Changing Rural Environment" looked at changes in urban influence by identifying counties according to changes in their status in the rural-urban continuum from 1974-88. This yielded 5 distinct groups of counties--stable metro, stable nonmetro, urbanizing metro, urbanizing nonmetro, and ruralizing nonmetro. Using this classification, she examined the effect of changes in urbanization on farm structure. She found that counties that become more urban tended to have smaller farms that are geared toward high-value consumer commodities, while counties that became more rural tended to have larger farms that produced the more traditional land-intensive commodities. The paper was published in the proceedings from the conference.

Agricultural Labor Section

Papers Presented & Meetings Attended

Jack Runyan attended the annual meeting of the National Council of Agricultural Employers held January 29-31 in Washington, D.C. Major labor-related issues facing agricultural employers were addressed by members of Congress, officials of government agencies and others. Some issues discussed were new legislative initiatives, the impact of a recent Supreme Court decision on workers' compensation, and proposed regulations from the EPA and the Equal Employment Opportunity Commission.

Jim Duffield presented a paper entitled "Farm Labor Supply and Demand Elasticities Revisited" at the SAEA meetings in Fort Worth, Texas. The paper developed a model which estimated farm labor supply and demand elasticities. The results support earlier studies that the demand elasticity for labor is rising over time. An elastic demand for labor suggests that producers are relatively responsive to changes in wage rates. They can avoid paying higher labor costs by developing methods to increase labor productivity or switching to less labor intensive crops.

Leslie Whitener spoke at the Surgeon General's Conference on Agricultural Safety and Health in Des Moines, Iowa in May. Her comments focused on changing farm structure and employment patterns and trends for agricultural workers. The working conference, sponsored by the National Institute for Occupational Safety and Health, was designed to build coalitions, disseminate information, and encourage action to prevent injury and disease connected with agricultural activities. Participants include representatives from Federal, State and Local governments, members of Congress, scientific and professional groups, university faculty and others interested in agricultural safety and health issues.

Personnel

Leslie Whitener became the new leader of the Agricultural Labor Section in February 1991. Since 1985, Leslie has been a sociologist with the HRIB's Rural Labor Section and has conducted research on employment conditions and trends in rural areas. Her most recent work focused on the determinants and consequences of multiple job-holding in rural areas and on labor market disadvantages facing U.S. farmers. She has also been involved in the quarterly reporting of rural employment data in ARED's *Rural Conditions and Trends*.



Leslie Whitener

Prior to 1985, Leslie worked with the Agricultural Labor Section and studied farm labor supply and demand, the socioeconomic characteristics of hired farmworkers, and the implications of farm labor policies and programs for U.S. farmworkers. Her research has been published in *Monthly Labor Review* and *Rural Sociology*, in books on the rural family and rural

labor markets, and in ERS publications.

Leslie holds a B.S. in Sociology and Economics from Madison College, and an M.A. and Ph.D. in Sociology from The American University. She has served on the editorial board of *Rural Development Perspectives* and has received a USDA Certificate of Merit and an ERS Administrator's Special Merit Award for her work in the Agency.

Leslie and her husband, Dwight, are avid boating enthusiasts. In pursuit of this avocation, Leslie has poled her way through the Dismal Swamp, survived an accidental artillery shelling in the Dahlgren Test Range, and taken a long walk off a short pier in the Chesapeake Bay. What one will not do for relaxation!!!

FARM SECTOR FINANCIAL ANALYSIS BRANCH

View from the Branch

By James Johnson

During this past winter FSFA staff was not only actively involved with field work related to implementing the annual Farm Costs and Returns Survey (FCRS), but also had the opportunity to share information about the concepts, methods, and data that underlie the Branch's estimates of economic data series for the agricultural sector with a variety of individuals and groups. The national training schools for the FCRS were held in January and involved staff from the Farm Costs and Returns and Farm Financial Analysis sections working with headquarters staff from the National Agricultural Statistics Service (NASS) to instruct staff from each State Statistical Office on survey concepts, design, content, and operating procedures to be



Data for corn, barley, cotton and peanuts are collected as part of the annual Farm Costs and Returns Survey.

followed in contacting each of the survey's potential 24,000 plus respondents. The national training schools were followed by schools conducted in each of the State offices for enumerators. **Mitch Morehart** helped with the Maryland school while **Bill McBride** worked in Kansas. Data collection was completed on April 5. FSFA staff assisted with edits of the individual farm responses (for logic and reasonableness of response and to determine whether "callbacks" were necessary) both in NASS headquarters and in NASS State offices. ERS is scheduled to receive a survey data tape on May 17.

While the 1990 survey questionnaire was being enumerated, FSFA staff have been working on the sample allocation and survey instrument to be used to obtain data for the 1991 calendar year. The 1991 survey will focus on obtaining data needed to develop a commodity costs and returns estimate for four of the major commodity program crops (corn, barley, cotton, and peanuts) and flue-cured tobacco plus information about the characteristics of farm operator households. The Branch views the Farm Operator Resource (FOR) version of the FCRS as being a prime vehicle through which to obtain data needed to analyze linkages that exist between the household and the farm business and to assess the financial well-being of the operator household. **Mary Ahearn** is coordinating development of the 1991 FOR.

Mitch Morehart, **Dave Banker**, and **Jim Johnson** are working with faculty from Texas A&M University (Agricultural and Food Policy Center), University of Missouri (Food and Agriculture Policy Research Institute) and Southwest Texas State University to develop and test financial and production characteristics of farms

representative of typical business units in different geographic locations. Texas A&M developed representative farm models using data collected through a modified delphi procedure from a panel of farmers identified by extension staff and other sources. FCRS data are from a probability sample. FSFA staff has been working with **James Richardson** (Texas) and **Joe Trujillo** (Missouri) to determine where in the continuum of farm types the panel farms fit and what proportion of total farms and production they represented. From FSFA's perspective, we have been able to examine how closely data from the FCRS match that gained through another data collection medium for a given set of farms.

FSFA staff have been working with staff from the General Accounting Office (GAO) to provide information about the data and methods used to assess the financial performance of farm businesses and to develop estimates of commodity costs and returns. From the perspective of FSFA's financial performance analyses, GAO is interested in FCRS. In addition to the GAO, staff from the Farm Income Estimates and the Farm Financial Analysis sections have been working closely with NASS, the Department of Commerce (Bureau of Economic Analysis and the Census of Agriculture), and the Resource and Technology Division, ERS, to develop and/or revise estimates of farm sector income, assets, and liabilities. One of the more interesting issues to be confronted this year for 1990 estimates and earlier years is the value of housing occupied by the farm operator and other households residing on farms. Establishment of an "accepted" value will directly influence the level of net farm income (value multiplied by a rent-to-value ratio), income originating in agriculture, and the national input-output tables.

Economic Indicators Forecasts Section

The Branch has recently added a new section the Economic Indicators Forecasts Section. This section will prepare the forecasts of the indicators of financial performance that are provided by the Branch and will coordinating the Branch's input into the Agricultural Income and Finance Situation and Outlook Report. Thus, the section consolidates the financial forecasting activities that were scattered throughout FSFA. Bob McElroy has been transferred from the Office of the Branch Chief to lead the Section, bringing his expertise on general farm finance and structure. Diane Bertelsen has also joined the group continuing her lead in short-term forecasting of the major financial indicators. Bob Dubman, who has taken over the coordination of the Branch's baseline research, is another section member. He is also replacing Bob McElroy as coordinator for three issues of the quarterly *Agricultural Income and Finance Situation and Outlook* report that are developed by FSFA.

Briefings & Miscellaneous

Bob McElroy and Diane Bertelsen briefed Assistant Secretary Gardner on 1991 farm income. April forecasts were showing net incomes down somewhat from 1990 levels as rising commodity receipts are being eclipsed by even higher production expenses. Although lower 1991 planting intentions point to less input use, input prices are rising faster than the decrease in quantity used. Bob Dubman attended the FAPRI Baseline Review in Kansas City and discussed farm income estimates for the decade of the 90's. This longer-term view points to cash receipts shifting from crops to livestock.

Farm Firm and Household Well-Being Research Section

The Economic Indicators Research and Forecasts Section has been renamed the Farm Firm and Household Well-Being Research section in conjunction with the branch reorganization. This change in title reflects the section's research emphasis on the distribution of farm household income and wealth and on linkages that exist between farm businesses and their associated household(s).

Publications

John Jenkins and Mary Ahearn completed an article, "Net Value Added Gauges Farming's Contribution To The

Economy," for the May 1991 issue of *Agricultural Outlook*. In the article, John and Mary explore some of the controversies about how the value added created by crop and livestock production should be measured. They also examine how value added creation varies among farms specializing in different commodities. This article contains the first published results from a cooperative research effort involving ERS and Cornell University. Related studies are in progress with Bud Stanton (Cornell University) and Greg Hanson (Pennsylvania State University).

Papers Presented & Meetings Attended

A Conference Explores Methods for Estimating Commodity Costs and Returns

The American Agricultural Economics Association's Economic Statistics Committee hosted a conference on the "Economic Accounting of Commodity Costs and Returns" in Kansas City, Missouri, February 20-21, 1991. The sponsors of the conference were the Economic Research Service, the Farm Foundation, the Federal Extension Service, and the American Agricultural Economics Association.

Mary Ahearn, as Chairperson of the Economics Statistics Committee, was the principle organizer of the conference. Lorraine Chandler provided valuable administrative assistance to the conference planning and was recognized with a spot award after the conference. Mitch Morehart authored a paper which provided discussion of the concepts, procedures, and data being used by the Economic Research Service. Robert Dismukes also attended.

The goal of the conference was to explore how different uses of costs and return estimates determine different methods of estimation, and for similar uses, what are preferred estimation methods. The more than 35 conference presentations were excellent and generated a lively and productive discussion. Mary is currently co-editing the proceedings volume from the conference with Utpal Vasavada, University of Laval, Quebec, Canada.

The conference ended with the Economic Statistics Committee accepting the charge to establish a National Taskforce on Standards for Commodity Costs and Returns. That taskforce is currently being formed. To nominate yourself or another individual to serve on the taskforce, please contact Mary Ahearn, USDA/ERS, 1301 New York Ave., NW Rm. 937, Washington, D.C. 20005-4788. The taskforce is expected to hold its first meeting sometime this summer.

Hisham El-Osta and Mary Ahearn presented a paper on "Income Inequality Among Farm People: The Role of Off-farm Work" at a conference on "Rural Planning and Development: Visions of the 21st Century" in Orlando, FL, February 13-15, 1991. The paper pointed out that incomes of farm operator households are much more unequally distributed than are incomes of all U.S. households and measured the importance of off-farm income in reducing the income inequality of farm operator households. Sixty percent of farm operator households earn income off their farms from wage and salary jobs or nonfarm businesses.

John Jinkins is organizing a symposium on agricultural value added for the summer American Agricultural Economics Association meetings in Manhattan, Kansas. The symposium will bring together economists interested in designing value added measures that capture the economic impacts of commodity production. During this session, economists from Pennsylvania and Texas will compare the value added generated by agriculture and the impacts of agriculture on local economies in these diverse States.

Farm Costs and Returns Section

Research & Analysis

Gerald Whittaker is currently researching the use of data envelopment techniques (DEA) in the evaluation of the relationship of Government programs and farm income. In this approach, a frontier of the type commonly used to measure efficiency is estimated for different government policies. The distribution of farm income and the net social costs and benefits resulting from each policy are then calculated and compared. This work responds to a staff request, and is also being submitted for journal publication.

Dargan Glaze is working on a cooperative project with Greg Strain of Agriculture Canada concerning cost competitiveness between wheat producers in the Northern Plains of the United States and Saskatchewan, Canada. The analysis involves estimating farm level costs of production using similar modeling approaches and data.

Publications

Bill McBride completed a report which compared selected characteristics and costs of production among soybean producers. Acreage, yields, and regional differences among

farms were determined to be the principal factors influencing soybean production costs. Producers with the lowest costs of production planted more acreage to soybeans and obtained higher yields than producers with higher costs. Low-cost producers were highly specialized in cash grain production, mostly corn and soybeans. High-cost producers sold a much wider variety of crops, including cotton, peanuts, and tobacco, which is characteristic of farms in the Southeast and Delta. Additional information may be found in "Characteristics and Production Costs of U.S. Soybean Farms, 1986," AIB No. 623.

Mike Salassi, Bill McBride, and Bob Pelly published a report describing production practices and operating characteristics for representative corn farms. "Representative U.S. Corn Farms, 1987," Statistical Bulletin No. 820 provides information for nine major corn-producing States and for small, mid-size, and large farms in three regions. Basic data from the study came from the 1987 Farm Costs and Returns Survey. A similar report was previously published for wheat.

Briefing and Miscellaneous

Mitchell Morehart made a presentation on Cost of Production to the staff members of the House and Senate Agricultural Committees on March 7. The meeting was organized by FAPRI with participation from Texas A&M University. Morehart's discussion centered around the FCRS data collection for cost of production and how these data could be used to provide a context for the representative farm results. Additional discussion concerned differences between costs of production methods used in the representative farm model and those employed to develop national COP estimates.

Several members of the farm costs and returns Section participated in the edit and review of the 1990 Farm Costs and Returns Survey. **Bill McBride** assisted in State edits of data in North Dakota.

Upcoming Events

Farm Costs and Returns Section staff is preparing for the 1991 Farm Costs and Returns Survey. Questionnaires are being developed to collect cost of production information for barley, peanuts, cotton, and corn.

Personnel

Ken Mathews has taken a position in the Commodity Economics Division, Livestock Poultry and Dairy Branch.

Robert Pelly has taken a forecasting and financial analysis position with Partners Health Plan in San Diego, California.

Farm Financial Analysis Section

Research & Analysis

Ken Erickson travelled to the University of Florida to continue cooperative research with Dr. Charles Moss and Dr. Richard Weldon. Their research will compare rates of return in the farm and non-farm sectors of the economy, adjusting for differences in the riskiness of farm and non-farm investments. They will also use newly-developed time series data to examine the consistency of alternative farm financial ratios. The group may present a seminar on these studies this fall and expects to produce several publications.

Papers Presented & Meetings Attended

Jim Ryan presented a paper entitled "Trends in Farm Sector Debt" at the March meeting of the National Agricultural Credit Committee in Washington. Farm debt reduction has been a principal theme in farm financial circles since the mid-1980's. Total U.S. farm debt declined from \$206.5 billion at the beginning of 1984 to \$146 billion at the end of 1989, a decrease of \$60.5 billion. This reduction reflects 1) farmers' voluntary pay down of existing debt as highly leveraged farming became less profitable, and 2) lenders' write-off of loan receivables that were considered to be uncollectible. Loan loss estimates based on institutional lenders' reports indicate that combined losses for all lenders totaled approximately \$18.5 billion during this period. While this suggests that about \$42 billion of the decrease in farm debt during the late 1980's was due to borrower repayment, it also indicates that roughly one-third of the debt decline could be attributed to lender write-offs.

Loan losses for individual lenders had varying impact on loan balances. In particular, the experiences of commercial banks and the Farm Credit System (FCS) differed dramatically. During the 1984-89 period, banks incurred an estimated \$5 billion in loan losses, and their total loans outstanding declined only \$900 million. Meanwhile, FCS had \$3.9 billion in losses, but loan volume decreased over \$30 billion.

FARM INCOME ESTIMATION SECTION

Research and Analysis

FIES is currently working to revise the income accounts to incorporate recently released data from the Agricultural Economic and Land Ownership Survey (AELOS) conducted as a follow-on to the 1987 Agricultural Census. Other, more extensive revisions were made a year ago using the then available 1987 Census of Agriculture and some preliminary indications of AELOS results. AELOS provided some much needed data that has not been available for 10 years.

To avoid making major revisions in two consecutive years, FIES worked to develop and incorporate reliable indications of the AELOS results a year ago, with the objective of having to subsequently make only minor corrections, when the AELOS results were published. Several components of the income accounts are being fine-tuned to reflect the differences between the preliminary estimates and the published AELOS results. AELOS also affected the accounts indirectly via revisions to real estate statistics that are estimated elsewhere but used as data in both income and expense components of the income accounts.

AELOS results led to a substantial upward revisions to the value of housing stocks used in the farm income accounts. Prior to the AELOS, the 1979 follow-on farm financial survey was the basis for relationships used to estimate building values from total real estate values. Building and land values have not always experienced changes of the same magnitude and even direction over the last 10 years. The direction and magnitude of the revisions had been predicted from data collected on the FCRS. Thus the effects of incorporating the new official real estate values based on AELOS are much less than they would have otherwise been.

At a recent meeting, BEA requested that the revisions for 1977 through 1983 be made available to their economists in April to facilitate their revisions to the Department of Commerce's National Input/Output Model back to 1977. Fulfilling this request has necessitated expediting the timetable for revisions to the income accounts to get preliminary estimates for BEA.

In late March, preliminary state cash receipts estimates were given to BEA for incorporation into their individual proprietor's income accounts. It is the first of many exchanges of data and information that will continue as the development of the income estimates progresses through the summer months. The farm income accounts are the

bases for the farm sector's contribution to all of BEA's National Income and Product Accounts.

HUMAN RESOURCES AND INDUSTRY BRANCH

View from the Branch

By David McGranahan

We have just had mid-year review, a time for reflection. As a branch chief and a sociologist, I think not only about the content of our research program, but also about its organization. Kanter's *The Change Masters: Innovation and Entrepreneurship in the American Corporation* raises the question of what organizational structure is most conducive to a creative Branch research program.

A basic tenet of organizational theory, at least when and where I was in school, was that bureaucracy and innovation/adaptation are antipathetic. Generally, the more written rules, the more formal reporting, the more levels of supervision, the more segmentation of activities, the more vertical (the less horizontal) the lines of communication, and the more isolated the organization, the less its innovation and ability to adapt.

Bureaucracy is not good or bad, but there is a degree of bureaucracy that is appropriate to an organization's tasks and environment. Moreover, within organizations, different degrees of bureaucracy are appropriate to different tasks and at different times. Research, especially basic research, generally calls for relatively little formal bureaucracy. Staff analysis, on the other hand, calls for a bit more--a potential source of conflict. My sense is that the Department of Agriculture, the Civil Service System, *et al.* generally provide the Branch with adequate formal bureaucracy, more than is found in many research settings. The task, then, is to try to create an innovative setting within the USDA-ERS context.

What does that mean? According to Kanter, it means strengthening the horizontal aspects of the program, creating situations that facilitate informal communication and collaboration. For our Branch, I think it means, first, trying to define the research program in terms of a few broad, related questions rather than a multiplicity of small, discrete questions. Communication is enhanced when we see our particular research topics as different parts of the same puzzle, rather than as separate puzzles.

Strengthening the horizontal aspects of the program also means emphasizing structures which cut across sections. The Branch brown bag series is one example; so is the spatial studies group originated by Deborah Tootle. Branch working groups, which can include researchers from many sections, are another example. Our work group on education, which involved internal presentations and discussions was a prototype. The minorities work group will follow the same format, but is even more experimental. We did not designate topics ahead of time, but rather solicited proposals based around the general question of how rural minorities fared in the 1980's. Designations were then made to fill in obvious gaps. We have provisional plans to form another working group to analyze the geography of rural development in the 1980's, taking advantage of the 1990 Census data. The current ARED practice of emphasizing larger, multi-authored reports rather than small, discrete reports is quite consistent with the working group approach.

Horizontal ties with outside groups also need to be facilitated. In the past few years, the Branch has given greater support to collaborative work with non-ERS researchers and to participation on regional projects. We have provided office space to a number of people on sabbatical. We have also initiated a small program of one-week, research-related field visits, so that researchers can see how their problems look from the ground level. Given the limited travel budget, these initiatives have meant reduced allowance for professional meetings travel.

Some policies suggested by Kanter have not been emphasized. For instance, temporarily reassigning people from one Section or Branch to another is a rare event. We have not detailed people to other agencies or universities, partly because no obvious possibilities have arisen. People do move from one Branch to another or find outside positions, but since new research projects rarely resemble the old, the links to the previous group tend to be weak. Kanter also argues that we should bet on people ahead of time rather than simply rewarding them afterwards. We try to do that, but do not really have many resources with which to bet.

The idea is to facilitate rather than mandate communication and collaboration, and to support people, especially productive people, as best we can. Kanter argues that, "Leadership...consists increasingly of the design of settings which provide tools for and stimulate constructive, productive individual [and collective] actions." (*The Change Masters*, p. 61.). For this to work, management foster a strong common understanding of purpose--what Kanter calls "corporate culture"--so that there is general agreement on what constructive, productive actions are. As she points out, this is not always an easy task.

Some changes since the last Newsletter. Molly Killian has become *RDP* editor and Linda Ghelfi, head of *Rural Conditions and Trends*, shifts that will make a dent in our research program. But we have gained as well. Merritt Hughes moved into the Rural Industry Section from Finance and Tax. She will be looking into the relationships between trade and rural development, among other issues. Also, Marie Howland, Associate Professor at the Institute for Urban Studies, University of Maryland, is here for several months on a sabbatical. She is doing some very interesting work about how rural and urban businesses differ.

Income and Well-Being Section

Publications

An article by Bob Hoppe, entitled "Defining and Measuring Poverty in the Nonmetropolitan United States Using the Survey of Income and Program Participation," appeared in *Social Indicators Research*, Volume 24, March 1991. This study used monthly data from the Survey of Income and Program Participation (SIPP) to define poverty in different ways. How poverty is defined affects both the measured extent of nonmetro poverty and the groups who are included among the nonmetro poor. Regardless of how poverty is measured, however, nonmetro areas have disproportionately more poor than metro areas. In addition, the nonmetro poor are more likely to be white, aged, disabled, and members of married-couple households than the metro poor under all definitions considered. None of the definitions examined is intrinsically superior. The choice of a definition to use depends largely on the research problems under consideration.

Rural Development Research Report No. 80, *The Role of the Elderly's Income in Rural Development*, was released in January, 1991. In this report, Bob Hoppe points out that the elderly receive substantial property income (interest, dividends, and rent) and transfer payments (mostly from Government programs, such as Social Security), which can create jobs and help stabilize local economies. However, the elderly's property and transfer income is not a panacea for rural economic development. Attracting elderly migrants to stimulate rural economies is limited by the number of elderly of adequate means who are willing to move. Many elderly are poor, particularly in nonmetro areas. Providing the local elderly poor with services may be a more pressing issue for some nonmetro areas than attracting more elderly. The future of the Social Security Program must also be considered, since it provides about a third of the elderly's income.

Meetings Attended and Papers Presented

Deborah Tootle recently returned from Atlanta, GA, where she attended three meetings: the mid-year meeting of the USDA Cooperative Regional Project S-229 which is titled "The Changing Structure of Local Labor Markets in Nonmetropolitan Areas: Causes, Consequences, and Policy Implications", the 1991 Annual Meeting of the Southern Stratification Research Group and the 1991 Annual Meeting of the Southern Sociological Society.

At the S-229 Committee, research proposals for a PUMS-D version of the 1990 Census of Population and Housing, and progress on the Inequalities in Local Labor Markets book project were discussed.

At the Southern Stratification Research Group meeting, family economy and employment, industry and occupations, and poverty research were discussed.

For the Southern Sociological Society meeting, Deborah organized a session on "Economic Restructuring and Inequality". Participants presented papers on the impact of the growing service sector employment on various measures of income and inequality. One of the more interesting findings from this session is that the growth of the service sector has different effects on different portions of the rural population. Deborah also presented "Race, Spatial Organization of Southern Labor Markets and Underemployment", a paper co-authored with Leann Tigges of the University of Georgia.

Deborah and Leann focus on the linear and nonlinear effects of the relative size of the black population on three measures of black underemployment relative to white underemployment. Underemployment was measured in terms of low-wages employment, unemployment, and part-time work. Findings show that in southern labor market areas in the United States, blacks are at an employment disadvantage, relative to whites, when they reside in areas where they comprise a significant proportion of the population. However, these effects are not consistent for all concentrations of blacks or for all dimensions of underemployment. Blacks experience more low-wage underemployment as the relative size of the black population in the local labor market increases. In contrast, black-white relative unemployment increases only after the black population exceeds 15 percent, and relative part-time employment increases as black concentration increases, but at an ever decreasing rate. Findings also show that the local economy affects the black-white ratios of underemployment as well. In labor markets where much of the employment is concentrated in routine manufacturing, black unemployment, relative to white, is reduced. Employment in business services, on the other hand, helps to reduce relative low-wage underemployment.



Scene from Greenwood, Delaware

Upcoming Events

In May, **Deborah Tootle** will travel to Wisconsin to visit several American Indian reservations in a field study of the rural American Indian population. She will be observing economic development and well-being on reservations.

Population Studies Section

Publications

"The Economic Well-Being of Nonmetro Children," RDRR-82, by **Carolyn C. Rogers**, was released in March and has gone into a second printing. The report analyzes the economic well-being of children living in families with at least one parent present, by metro-nonmetro residence, using data from the March supplement to the Current Population Survey. The report covers recent trends in family living arrangements and poverty rates for children by metro-nonmetro residence. Demographic and family characteristics of children, along with socioeconomic characteristics of their parents, are analyzed to provide a comprehensive profile of the various factors in the family environment that influence the economic realities children experience. The report is unique in that children are the unit of analysis, with household, family, and community regarded as influential factors. This approach is advantageous because children can be grouped by age, race, residence, or any other variable--this cannot be done when the family is the unit of analysis.

"Nonmetro/Metro Children: Similar Families, Different Economic Conditions," *Rural Development Perspectives*, Oct-Jan. 1991 was written by **Carolyn C. Rogers**.

Carolyn C. Rogers has completed "Population Estimates and Projections for Per Capita Series," for April 1991, an update of the estimates which she does twice a year.

Rural and Small Town America, the monograph co-authored by long term ARED collaborator Glenn Fuguitt, former ARED associate director David Brown, and **Calvin Beale** has been named an outstanding academic book of the year by the library journal, *Choice*.

Papers Presented & Meetings Attended

Calvin Beale, **Margaret Butler**, **John Cromartie**, **Laarni Dacquel**, **Paul Frenzen**, **Carolyn Rogers**, and **Linda Swanson** attended the annual Population Association of America meetings in Washington, D.C., March 21-23, 1991. John presented a paper, "Dynamics of Nonmetropolitan Out-Migration, 1985-1990." Carolyn served on the Local Arrangements Committee. Sessions of interest include: child health programs and policy; socioeconomic effects of family size and structure; comparative perspectives on internal migration; the 1990 census--coverage and adjustment; morbidity, mortality and aging; living arrangements in older adulthood; and population aging in developed countries.

Carolyn attended the Interagency Forum on Aging Related Statistics in March and the Work Group on Older

Americans in Rural Areas in April. The work group is preparing background material for a briefing for the Senate Committee on Aging. Carolyn is focusing on the health and nutritional status of the elderly in nonmetro areas. She is also preparing dependency ratios by residence, race, and region for 1980 and 1990.

Linda Swanson organized (with David Brown, Cornell University) a workshop on "Population Change and the Future of Rural America," sponsored by ERS, Cornell, and Queenstown, MD, May 30-June 1. The goal of the workshop is to increase understanding of the role of demography in rural development in the 1990's. Carolyn Rogers is presenting an issue brief, "Demographic and Socioeconomic Changes in Rural Youth". As part of the workshop, a banquet will honor Calvin Beale for his recently published collection of writings, *A Taste of the Country* (edited by Peter Morrison).

John Cromartie attended "Population: Growing as a Field," a symposium celebrating the 25th anniversary of the Carolina Population Center, May 5-7 in Chapel Hill, NC.

Paul Frenzen presented his research on the distribution of physicians at a Branch Seminar in February. The analysis showed that all metro and nonmetro areas gained physicians during the late 1970s and 1980s. However, the supply of MDs increased more rapidly in metro areas, widening metro-nonmetro differences in the availability of physicians. During the same period, nonmetro urbanized remote counties became more important centers of the MD supply. A paper describing the research is forthcoming in the *American Journal of Public Health*.

Rural Labor Section

Research and Analysis

Paul Swaim and Professor Michael Podgursky (University of Massachusetts) are continuing their joint research on job displacement in nonmetro labor markets, which is being supported by an ERS cooperative agreement. By combining information across several CPS surveys, they have constructed longitudinal histories for both displaced workers and a comparison group of non-displaced workers. They are now using these data to estimate econometric models of the incidence and effects of permanent layoffs.

Ruy Teixeira's current project comparing skill trends in rural and urban areas (with Lawrence Mishel) should be completed shortly. An article summarizing initial findings from the project ("Rural Workforce 2000: Skill Upgrading and the Rural Economy, 1970-2000) will be published in

the June issue of *Rural Development Perspectives*. A report detailing the complete findings from the project will be issued by the Economic Policy Institute this summer. (A related report is also planned comparing skill trends by region. This, too, will be issued by the Economic Policy Institute.)

Publications

"Higher Education is No Panacea for Weak Rural Economies", by Tim Parker and Molly Killian (Rural Industry Section) appeared in the October-January issue of *Rural Development Perspectives*. The article examines local education levels and job growth during the 1970's and 1980's. The findings indicate that the role of education in local area job growth may have been overstated by earlier studies. Other factors such as industry mix, the cost of labor, and location were also found to be important factors in employment growth.

Tim Parker's article entitled "Nonmetro Job Growth Lags Its Apparent Potential" appeared in the October-January issue of *Rural Development Perspective*. Tim found that nonmetro areas grew less than expected during the 1970's and 1980's, given their economic and human capital characteristics. Also, the more rural an area, the larger the gap between actual job growth and expected job growth based on the characteristics of that area. These findings suggest that rural areas are penalized by their small size, isolation, and other drawbacks connected with distance from urban centers.

Ruy Teixeira and Paul Swaim co-authored two articles ("Skill Demand and Supply in the Rural Economy" and "Education and Training Policy: Skill Upgrading Options for the Rural Workforce") which will be included in the forthcoming ERS special report, *Education and Rural Development: Rural Strategies for the 1990's*.

Ruy Teixeira's report, "The Myth of the Coming Labor Shortage: Jobs, Skills and Incomes of America's Workforce 2000" (co-authored with Lawrence Mishel), has been published by the Economic Policy Institute. An article based on the report's findings is forthcoming in *The American Prospect*.

Papers Presented and Meetings Attended

Ruy Teixeira and Paul Swaim participated in the March 1-3 meeting of the Rural Sociological Society's Task Force on Persistent Rural Poverty, held in Tampa, Florida. The purpose of the meeting was to bring together 12 topical working groups that had been working independently for

about a year. Paul attended as a member of the Working Group on Work Structures, Labor Market Dynamics and Rural Poverty, which is studying the evolution of employment opportunities in high poverty areas. Ruy is part of the working group on human capital investment and rural poverty and will be co-authoring a report on that topic with other members of his working group.

Paul Swaim attended the annual meeting of the Eastern Economics Association (EEA) in Pittsburgh, March 15-17, where he was a discussant in one session and presented a paper (co-authored with Professor Michael Podgursky of the University of Massachusetts) in another session. The paper, "To Search or Not to Search: Jobless Duration and Labor Force Withdrawal Following Displacement," shows that, for women losing full-time jobs, as much as half of the jobless time following layoffs is attributable to labor force withdrawal rather than unemployment (i.e., active job search). Professor Dale Jorgenson (Harvard University), the EEA president, chose this as one of five session papers to be included in a proceedings volume that will appear as a special issue of the *Eastern Economics Review* later this year.

Upcoming Events

Ruy Teixeira will participate in the upcoming (May 30-June 1) National Workshop on Population Change and the Future of Rural America, co-sponsored by ERS, Cornell University College of Agriculture and Life Sciences and the Aspen Institute. Ruy is preparing a short report on "Demographic Change and the Human Capital Endowment of Rural America" and will lead a workshop on that subject. The report will ultimately be included in a proceedings volume to be issued by ERS.

Personnel

Ruy Teixeira will be on leave from ERS from May, 1991 to March, 1992. Ruy will be in residence at the Brookings Institution, where he will write a book on the problem of low voter turnout in the United States. The book will be published by Brookings in the early Fall of 1992.

Rural Industry Section

Papers Presented and Meetings Attended

James Miller was invited to give a speech (March 21) at a conference for small-town mayors, officials and other rural

development practitioners at a conference titled, "Rural Community Development: Prospects for the 1990's" sponsored by the Illinois Institute for Rural Affairs in conjunction with Rural Partners. The conference was held in Springfield Illinois.

He stressed the following points:

- that small and medium size businesses (under 500 employees) had generated a lot of jobs in the 1970's and early 1980's;
- but that, most of these jobs were low paying jobs in residential services (retail affiliates and the like);
- that the recent trend toward more jobs in small businesses may have occurred largely "by default," because large businesses were cutting back jobs during this particular period...downsizing their operations, introducing labor-saving machinery, and moving affiliates offshore.

The speech ended on a positive note by pointing out that many rural counties in Illinois may be in a relatively good position to attract small vertically-disintegrated manufacturing operations, particularly in metalworking industries because of their proximity to many final assembly manufacturing operations in metropolitan centers especially in Northern and Central Illinois.

Jim also did interviews with three different radio stations in Illinois. The interviews (which took about 25 minutes, a possible record for three interviews) were conducted over the phone and were taped (and he hopes edited) for later "play-back." Jim learned that many small and medium size towns in Illinois either have their own radio stations or are sharing stations...so there must be a big need for filler time and it seems that small business growth in rural areas is still a hot topic.

Andy Bernat presented a paper on "The Regional Impacts of Oil Price Shocks: A Topdown CGE Analysis" at an IMPLAN conference May 20-22 in St. Paul, Minnesota. This study was co-authored by Ken Hanson, National Aggregate Analysis Section, and David Kraybill, University of Georgia.

Shirley Porterfield attended a meeting of the SRDC 89-07, a Regional Research Study Group which was held in Ft. Worth, Texas in February. The group decided to proceed with developing a proposal for creating a Southern Regional Information Exchange Group as an alternative to preparing a regional research proposal at this time. The research focus of the group is employment retention and expansion in the rural South.

LeRoy, Illinois After 30 Years

By James Miller

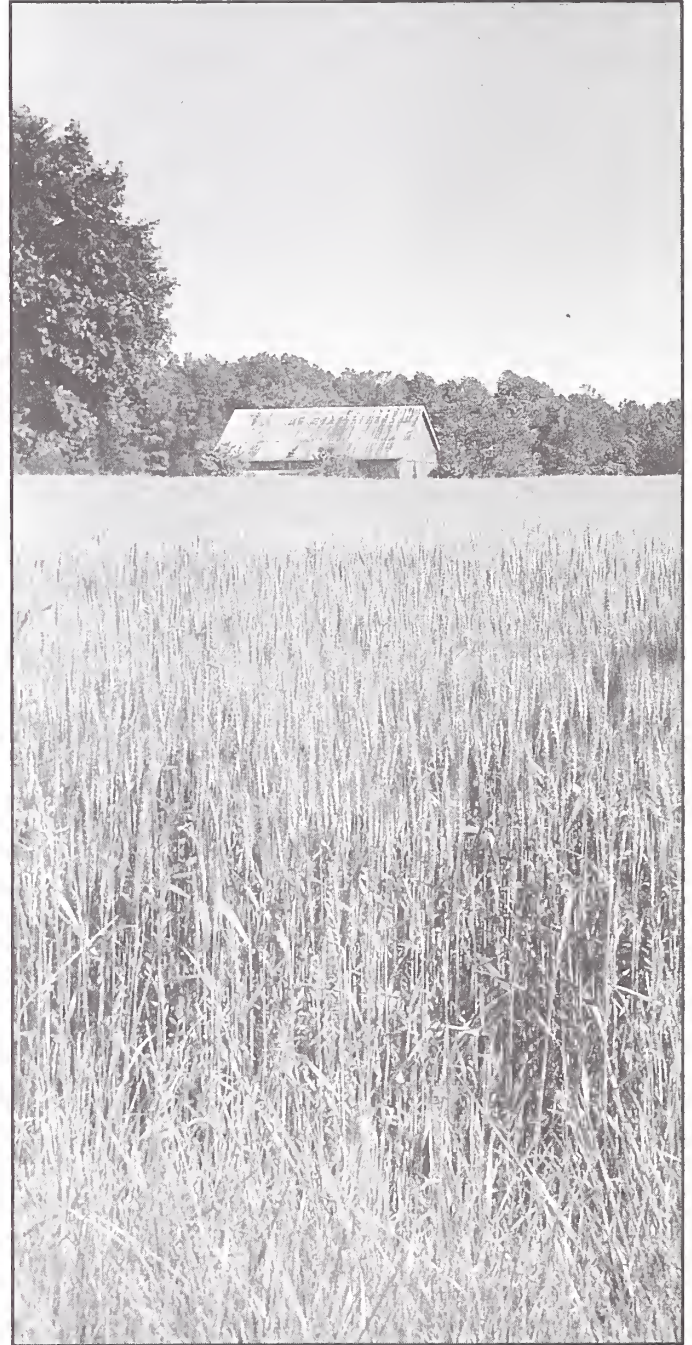
Following a conference on rural community development, after an absence of 30 years, I returned to my hometown which, coincidentally, is a small rural community in Illinois...LeRoy, a town of about 2700 people.

When I left there in the late 1950's, it had only 1800 people, so it has grown, contrary to national trends. It has grown because it is only about 10 minutes away from Bloomington which has been one of the most prosperous downstate metro areas in Illinois, perhaps even more so than Chicago. Mitsubishi and Chrysler have located an auto assembly plant there. Bloomington also is the home of Eureka vacuum cleaners, the State-Farm Insurance home office and the Illinois State Farm Bureau. LeRoy is also only about 30 minutes by interstate highway away from the University of Illinois in Urbana which is yet another growth center.

The LeRoy main street businesses no longer exist as I knew them. The main street is not entirely vacant, but the full range of residential services that I knew when I left LeRoy...grocery stores, 2 banks, clothing stores, general merchandise stores, law offices, meat locker, hardware stores, drug stores and so on have been replaced by marginal, rather shabby establishments that sell antiques, rent video cassettes, sell auto parts and pizza. There has also been the "last picture show." The old Princess movie theater was closed and is vacant. There are still some farm-related businesses: 2 grain elevators and 2 farm implement dealers.

The locals also are proud of two new businesses: a new Hardee's and a Super 8 motel, which I understand only fills up when the University of Illinois football team is playing at home. The only nonfarm export business I found was a small pre-fab housing operation. But, the basic institutions of LeRoy have survived and they are still in the same locations: the taverns and churches. There must be some explanation for this...perhaps for some rural sociologist yet to discover.

Thanks to everyone who helped with our first newsletter. Special thanks to Bill Edmondson, for showing us the ropes, Tom Hady for taking photos, Enid Hodes for sharing her rural pictures, Chris McGath for information, and Susan Yanero for help with the design. Proofreading help has come from Ted Covey, Jim McGlone, Jim Mikesell, Louise Stutzman, and George Wallace.



A farm in Denton Maryland.

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